



**Helping
dentists
build
wealth**

Financial
Independence

Investment Income within
a Professional Corporation

Are you a
Great Dentist?

FINANCIAL INDEPENDENCE

At TMFD Financial, we focus all our services, planning, and interactions with our clients around one sole principle – achieving financial independence for the dentist and their family. It is very easy to throw this appealing statement around, but what does it really mean?

We believe it means achieving freedom from worry about finances for a lifetime, and the ability to do the things you enjoy on your terms. For some, that may mean the desire to work as long and as often as they like. Others may be aiming for the end of all work with their sights set on time with family, travel, or hobbies. Either way, the concept is simple, but the ‘getting there’ can be difficult.

We look at how much a client and their family may need and this is often the hardest part to define. Many factors go into determining this number. It’s a complex and customized process, and we boil it down to three high-level areas:

- How much do you spend now as a family and after spending and taxes, how much is left to save for the long term?
- How do we increase your practice cash flow to increase savings for financial independence? The practice is the engine to reach financial freedom and the better it runs, the quicker and easier it is to achieve.
- What expenses will not be there in retirement and what expenses



need to be added? Other factors that we build in are debt repayment, tax planning, cash flow and income streams, savings and investment strategies, family protection with estate planning and insurance needs, along with provisions for kid’s education.

Always, our goal is to help dentists build their practice to eventually sell; reaching financial independence easier, faster, and keeping more in pocket.

Let’s look at the largest planning item - building the free cash flow in the practice. It comes from several

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areas, the most obvious being new patients. But we also consider dentistry vs hygiene revenue, expense controls, staff efficiencies, and strategic marketing (which will help lead to more growth and ultimately improve bottom line). The more improved the free practice cash flow, the faster financial independence is achieved, and the more there is to spend in retirement.

Next, we help the dentist decide how to best use newfound capital to improve net worth. It can be paying down debts, saving in various investment vehicles, or reinvesting in the business. These are not easy decisions and they all carry pros and cons. A customized plan to meet financial independence will help guide these decisions with the ultimate goal always in mind.

At times, navigating the waters as a dentist owner while trying to tie in professional life with personal life can be overwhelming. How do you know if you are making all the correct decisions and ultimately avoiding the big mistakes? Our integrated approach at TMFD Financial helps to see the actual situation more clearly, leaving you confident that decisions made today will provide financial independence tomorrow.

Financial independence is achievable for every dentist, and the path there should be tailored to every dentist’s unique needs and lives. One size does not fit all because no one’s life and family is the same. Providing customized advice and direction under one roof for all your needs is what we do every day. Come see us now to make sure you are on the right track.



JOSH BELLIVEAU CFP

A member of the TMFD Financial team since 2009, Josh believes in providing sound financial advice to clients by taking in their entire personal and professional picture. This includes investment analysis with a focus on proper risk exposure, tax minimization strategies, retirement planning, and estate planning centered on minimizing estate tax and transfer to next generation. Josh’s commitment is defining and achieving client goals in the best way possible while growing a lasting and beneficial relationship.

INVESTMENT INCOME WITHIN A PROFESSIONAL CORPORATION

At TMFD Financial, our focus is always on helping dentists build wealth and achieve financial independence. This task has become more difficult with the newest corporate tax rules first introduced by the federal government a year ago.

Changes were established to curtail the liberal use of income splitting and to impose higher taxes on dental profits, when investment portfolios have significant distributions each year. The intention was to address a perceived advantage enjoyed by incorporated small business owners, especially with medical and dental professionals.

Incorporation allows dentists to accumulate profits within the company and defer personal taxation until a future year. In doing so, dental profits are taxed at much lower corporate rates—12.5% for profits under \$500K and 26.5% for profits exceeding \$500K—than higher personal tax rates. These corporate savings can be withdrawn down the road, such as during retirement, potentially at a lower tax rate. As a result, incorporation provides opportunities to accumulate substantial savings within the company, to defer income, and to

save tax in the future. As mentioned, professional corporations have different tax rates on dental profits that fall above or below \$500K the Small Business Deduction limit (SBD). The new passive investment income rules reduce the SBD limit once investment income exceeds \$50,000 per year, and completely eliminates the SBD once income exceeds \$150,000.

The attached graph demonstrates how the SBD falls from \$500K to \$0K as investment income rises. As a result, the corporate tax rate on dental profits rises from 12.5% to 26.5% as profit exceeds the SBD. It's interesting to note that the tax on investment income remains the same; only dental profits are taxed differently.

With these recent changes, we need to revisit traditional tax planning and assess the best strategies going forward.

Since only dental profits are affected by these changes, we consider factors that influence the bottom line. The most significant is how dentists compensate themselves, through salary or dividends. Salary is a deduction and reduces profit. Dividends are not a deduction, but are withdrawn from

after-tax profits (i.e. from corporate savings, also known as retained earnings).

Is it better to increase salary to keep profit under the SBD limit, or choose dividends instead?

To answer this, we must consider the complete impact of personal tax, a concept called the “integrated tax rate”. It determines the amount of cash remaining after both corporate and personal tax.

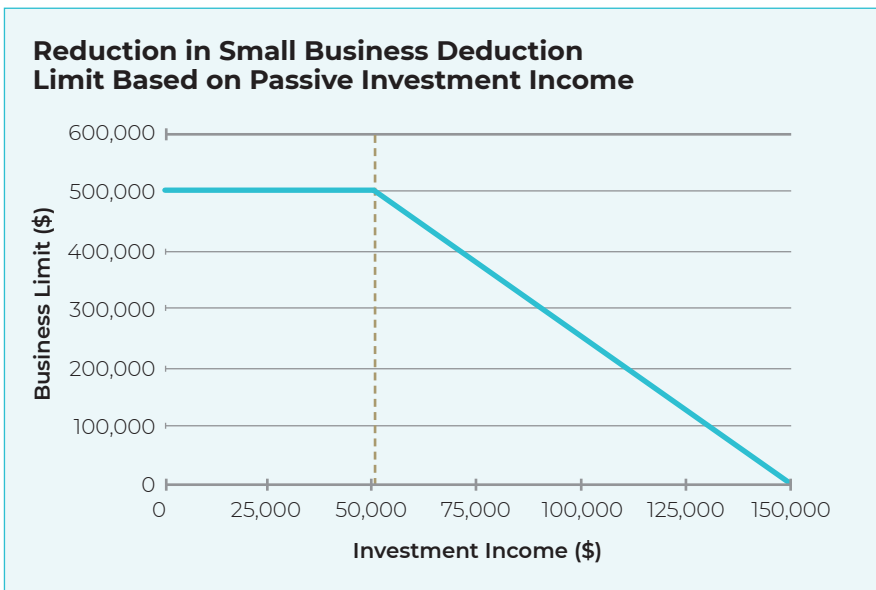
Let's consider a situation in which the dentist is at the top personal tax in Ontario in 2019 (i.e. income exceeds \$220,000) and requires additional income for personal use, such as lifestyle expenses or debt repayment. The corporation has dental profits for distribution, so we must choose between salary or dividends.

It's important to note there are two types of dividends which reflect profits earned below the SBD limit (non-eligible dividends) and above the limit (eligible dividends).

The table to the right demonstrates the integrated tax rate is 53.5% for salary, 54.0%, for non-eligible dividends, and 55.4% for eligible dividends. In other words, salary is the best option in this scenario since it offers the lowest combined tax payable.

However, other factors could influence the final decision, such as the effect of Employer Health Tax (EHT), the Ontario decision not to implement similar changes to the investment income rules, or personal income (below the top tax rate).

Drawing additional salary is not



Integrated Tax Rates*	Salary	Non-Eligible Dividends Under SBD	Eligible Dividends Over SBD
Corporation			
Profits from Dentistry	\$500,000	\$500,000	\$500,000
Salary	\$(500,000)	\$-	\$-
Taxable Income	\$-	\$500,000	\$500,000
Corporate Tax	\$-	\$(62,500)	\$(132,500)
Dividend	\$-	\$437,500	\$367,500
Dentist			
Salary / Dividend	\$500,000	\$437,500	\$367,500
Personal Tax	\$(267,650)	\$(207,375)	\$(144,575)
After-Tax Amount	\$232,350	\$230,125	\$222,926
Combined Corporate & Personal Tax	\$267,650	\$269,875	\$277,075
Total Tax Effect	53.5%	54.0%	55.4%

* Exception exists for investment income between \$50K & \$150K (Ontario 2019)

the only tax strategy to keep dental profits under the SBD, especially if additional funds are not required for personal use. Some of these strategies include:

Withdrawals to permit RRSP /

TFSA contributions: RRSP's allow tax deferral with the intent to withdraw later at a lower tax rate. TFSA savings can overcome the initial tax cost upon withdrawal given enough time and growth.

Individual Pension Plans: these “supersized” corporate savings plans may allow greater contributions than a traditional RRSP, leading to greater tax-deferred accumulation.

Tax-free Withdrawals: 50% of capital gains earned by corporate investments can be withdrawn tax-free through the Capital Dividend Account (CDA).

Investment Strategies: buy-and-hold strategies and low-turnover portfolios reduce investment income, encouraging a larger SBD limit.

Life Insurance: transferring taxable investments to a Whole Life policy can allow tax-free growth of the Cash Value while also addressing future estate taxes.

Donations—donation of securities generates a tax deduction for the corporation but also reduces future investment income.

In summary, there are often many factors to consider in determining the best strategy. How long will money be saved within the corporation? What will be the rate of return on investments? Will the dentist be in a different tax bracket in future years? The bottom line is that the optimal strategy depends on individual circumstances.

Dentists wishing to achieve financial independence should consult with their professional advisors to structure their affairs in a manner that takes advantage of current tax rules. Please contact TMFD Financial for a complimentary consultation.



CHRIS MOLLOY B.A.Sc., CFP
Chris is Senior VP, Advisory Services at TMFD Financial. Chris has over 20 years of experience at TMFD Financial working in the Ontario area. Chris specializes in tax, estate and investment planning for dentists and dental specialists. For a complimentary initial consultation with our team, we can be reached at info@tmfd.ca or by toll-free at (844) 311-8633.

ARE YOU A GREAT DENTIST?



Developing a successful dental practice is becoming ever more challenging. My partner lives across the border in New York and drives to my home in Richmond Hill every weekend. He's amazed at the plethora of dental practices; that shopping centres under construction are regularly featuring dental practices as a cornerstone tenant. The competition is fierce and it's not going to get easier.

Who's going to be truly successful?

Although location is key, it's not just about square footage. I've been involved with the growth of many dental practices over several decades. They've been in downtown

Your patients believe you are a great dentist because they feel good when they leave your office.

Ottawa, the suburbs of Montreal and all over the GTA. They've been affluent and not so much so. Ethnic and diverse. General and specialized. Store front on Bloor Street and fifth floor on Bathurst.

What do the most successful dental practices have in common? It's quite simple. They have happy patients who believe they have a great dentist! Because they feel that way, they show up for their appointments, they pay their invoice in a

timely fashion and they happily refer their family and friends!

Your patients don't know that you prepare a perfect feather-edge margin. They have no idea how beautifully you carve the anatomy into their 47 MODL. Nor would they care. Your patients expect that good dentistry is a given. You're a professional and it's what you do.

Your patients believe you are a great dentist because they feel good when they leave your office.

They are satisfied that their time was respected. They believe their concerns were heard and resolved and their fears allayed. They feel educated, not lectured. They believe they got good value for their money. They understand what treatment was recommended and why. They have the information they need to make an educated decision and they understand it's their choice.

While the culture of your practice comes from the top, your team has the greatest impact on this perception.

Take your hygiene department. You may well be engaging, talented, professional and friendly. Your patients, however, might see you for a total of an hour or so a year. During that same time, they may have several visits with your dental hygienists and will receive treatment, education, practice standard of care information and appreciation from them. If your patients have an inconsistent experience each time they come in, if their questions are not answered or are answered incorrectly, if their time is not respected or if they're

How to deliver a consistently positive patient experience:

Know your audience: Learn to spot clues to your patient's temperament and communicate with them in a way that makes them comfortable.

Ask questions: Don't guess at what your patients need, want and fear. Ask them and they will tell you exactly what their expectations are.

Train your team: Your patients come to you for your professional expertise, however they may be overwhelmed by the information you deliver. They will ask your team for clarification. Make sure their questions are answered accurately and with confidence.

Show respect: Make sure you deliver your practice philosophies by educating your patients, not lecturing them!

Make sure your patients are appreciated: Thank them for choosing your practice, for referring their family and friends and for giving you great reviews. Your patient is the most important person in the room. Make sure they know it!

not made to feel welcomed and appreciated they will tell their family, friends and colleagues that their dentist isn't so great. That's their perception.

To ensure a consistently positive patient experience you must be sure that:

- your hygienists are communicating and delivering care to a standard that you develop as a team
- you are comfortable that your team is sharing the vision of the practice in a consistent, positive

and confident way

- your team values the treatments you and they offer
- your team is committed to consistently delivering excellence.

With these essential values defined and an integral part of every interaction, your patients will equate the quiet, positive confidence they sense when they visit your practice to you being a great dentist.

And great dentists are the most successful!



MARI LEPA; Practice Management Coach, Lead

Mari has four decades of experience in growing dental practices to their full potential by organizing and streamlining operations for optimal productivity and patient satisfaction. With her guidance and leadership, each practice has seen significantly increased production and new patient flow while growing and maintaining positive community and online reputations. Mari understands that successful practices are built on successful relationships and that clear communication is key to growing those relationships. Mari has mastered verbiage and protocols designed to empower the team while allowing the patient to confidently accept treatment and make referrals.

TMFD **Financial**

Helping dentists
build wealth

Accounting* | Planning | Coaching

Tax* and Financial Planning
Incorporation and Practice Transition
Practice Management
Payroll and Accounting*
Insurance Planning
Retirement Planning
Wealth Management
Estate Planning

For over 30 years, TMFD Financial has been providing dentists and dental specialists with complete tax* and financial solutions. We work with new graduates, associates, established dentists and dentists transitioning or in retirement.

We are proud to be leaders in the industry, but our client's satisfaction is our truest measure of success. To all of our clients,

"THANK YOU FOR PLACING YOUR TRUST IN US."

*All tax and accounting services provided by TMFD Professional Corporation, Chartered Professional Accountants

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Dr. Michael Luciani, DDS & Dr. Amanika Luciani, DDS (Mississauga)



Since 2007, the team at TMFD, have helped us to establish and care for the needs of our dental practices, and rapidly expanding family. They have supported us with an “all in one” approach. They have provided accounting & tax matters, corporate and private insurance, estate planning, retirement and education savings. It is re-assuring to us to have a team of friends looking out for our family and practice needs.

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Dr. Neil Gajjar, BSc, D.D.S. (Mississauga)



I find the unique approach that Mike has developed to integrate all of my bookkeeping, corporate filings, and wealth management needs the key to capturing tax savings opportunities that simply would not be apparent otherwise. The background preparation work undertaken by Mike and his team at TMFD directly resulted in real corporate and personal tax savings. I am now moving confidently through a well-planned strategy. I highly recommend Mike as your one source provider to manage all your tax, corporate and personal financial affairs.

**VISIT THE TMFD
FINANCIAL TEAM**



82ND
Annual
WINTER CLINIC

Friday, November 8th, 2019
CINEPLEX CINEMAS, EMPRESS WALK

LUNCH & LEARN SESSION:
TMFD WILL BE SPEAKING AT
12:30PM TO 1:15PM
THEATRE 6

**GET MORE OUT OF YOUR
PRACTICE, KEEP MORE
IN YOUR POCKET!**
PRACTICE PERFORMANCE
& TAX PLANNING

**VISIT WWW.TORDENT.COM
TO REGISTER**

Book your complimentary consultation today | www.tmfd.ca | info@tmfd.ca | (844) 311-8633