The Benefits of Incorporating your Practice

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Rishabh Khamesra, CA

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Agenda

1) Business structures for chiropractors
2) Overview of each business structure
3) Employee vs Subcontractor
4) Pros & cons of each structure
5) Examples – A look at the numbers
6) CCO requirements of a Professional Corporation
7) Question and Answer period
Three main types of business structures:

1) Sole proprietorships;
2) Partnerships; and
3) Corporations.

The type of structure you choose for your business will depend primarily on three important elements:

I. Legal liability;
II. Taxation; and
III. Record keeping.
A sole proprietorship is a business entity that is owned and operated by an individual.

There is no legal distinction between the owner and the business.
A partnership is an agreement between two or more people to share in the profits/losses of their mutual business.

Each partner will be personally liable for their own financial obligations relating to the business and in maintaining their share of the record keeping.
A corporation is a separate legal entity from those individuals who are actually responsible from creating and managing it.
The courts have provided several factors to determine whether an individual is an employee or a self-employed contractor:

1. Control;
2. Ownership of tools;
3. Subcontracting work or hiring assistants;
4. Chance of financial risk and profit;
5. Integration with business; and
6. Specific projects and time-frame.

- This is an increasingly important topic as the CRA has been scrutinizing people who they feel are in fact employees and are seeking the tax treatment of self-employed contractors.
Pros:

- Least expensive business structure:
  - No incorporation costs;
  - Lower annual maintenance costs;

- Easier to manage:
  - Simplicity with taxes – report income and expenses directly on personal income tax return.
  - No payroll, no corporate income taxes, no financial statements, etc.
Cons:

- Personally liable for all the debts and obligations of the business;

- Lack of flexibility in tax planning:
  - Less control in determining your taxable income;
  - As your income level rises, you are subject to higher personal tax rates (up to 46.41% in Ontario)
Pros:

- Least expensive business structure:
  - No incorporation costs;

- Less binding working arrangement than a corporation;
  - Changing the ownership structure of a partnership is relatively easier than other structures;
Cons:

- Personally liable for all the debts and obligations of the business;
- Creating a proper partnership agreement can be tedious and complex;
- Partnership financial statements must be produced and partnership information returns are rather challenging to produce;
  - Must produce annual financial statements for the partnership.
  - Must track Adjusted Cost Base of partnership interest on an annual basis.
  - This can make partnerships almost as costly to maintain as a corporation.
- Lack of flexibility in tax planning:
  - Less control in determining your taxable income;
  - As your income level rises, you are subject to higher personal tax rates (up to 46.41% in Ontario)
Pros:

- Limited liability;
- Perceived branding potential;
- **Tax Advantages:**
  - Control your taxable income and defer taxes;
  - Small Business Tax Deduction:
    - Ontario Corporate Income Tax Rate is only 15.5% on the first $500,000 of taxable income.
  - Lifetime Capital Gains Exemption:
    - Upon the sale of your practice, you can receive up to $750,000 tax–free.
Cons:

- Increased paperwork and compliance:
  - Annual tax return for the corporation;
  - Annual financial statements for the corporation;
  - Payroll obligations;
  - Separate bank accounts for corporate and personal; and
  - Minute Book.
- Limited liability may not apply in all situations;
- Registering a corporation can be expensive;

Please note: SRJ Chartered Accountants offer incorporation services at a preferred rate for all OCA members.
A look at the numbers...

**Case Study 1:**
Assume living expenses of $40,000/year

### SOLE PROPRIETORSHIP

<table>
<thead>
<tr>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
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<td>20%</td>
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### CORPORATION

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<td>$60,000</td>
<td>$80,000</td>
<td>$100,000</td>
<td>$130,000</td>
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<tr>
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<td>$40,000</td>
<td>$40,000</td>
<td>$40,000</td>
<td>$40,000</td>
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### A look at the numbers...

**Case Study 2:**

Assume living expenses of $60,000/year

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<tr>
<td><strong>Tax deferral</strong></td>
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</table>
There are pros and cons to each business structure.

- **Sole proprietorships** are best suited for new or part-time chiropractors whose income levels do not justify the higher costs of a corporation.

- **Partnerships** are best suited for chiropractors working together in a less formalized arrangement.

- **Corporations** are best used for limiting your liabilities and providing options for tax planning.
So when should I incorporate?

There is no specific dollar amount or number of years to tell you when to incorporate your business.

The following are considerations in determining when to incorporate:

- Can you reap the benefits of a tax deferral?
- Will your tax savings exceed the additional costs of a corporation?
- Are you considering the sale your practice?
- Do you have family or personal assets that may be exposed to the risk of legal liabilities relating to your practice?
As per the College of Chiropractors of Ontario ("CCO"), in order to provide chiropractic services from a corporation, the corporation must meet the following criteria:

1. All shares of the corporation must held, directly or indirectly, by one or more members of the profession.

2. All officers and directors of the corporation must be shareholders of the corporation.
3. The corporation cannot carry on a business other than the practice of the profession and activities related to or ancillary to the practice of the profession.

4. The name of the corporation must comply with the rules respecting the names of professional corporations.
On behalf of our Partners at SRJ Chartered Accountants, we are proud to be working alongside the Ontario Chiropractic Association and all of it’s members. As per our arrangement with the OCA, we are offering preferred rates to its members for the following services:

- Incorporations and business registration;
- Personal income tax returns;
- Corporate income tax returns; and
- Bookkeeping services;

Should you have any questions on these matters, please do not hesitate to contact us for some further guidance.

Thank you.

SRJ Chartered Accountants

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(Downtown Toronto)  
Toronto, Ontario, M5C 1R5
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(GTA West)  
Mississauga, Ontario, L4W 5A8
Telephone: (647) 725-2537
E-mail: info@srjca.com
Web: www.srjca.com
### Questions?

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