



## Professional corporations for dentists and physicians: What are the tax advantages?

by Marc Weisman

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Although Ontario dentists and physicians are permitted to carry on their practices through professional corporations, many have yet to incorporate. As a result, they may be missing out on the significant tax advantages of incorporation, two of which are:

### 1. Tax Deferral

In Ontario, a professional corporation pays tax on its first \$500,000 of income at the business tax rate of approximately 16.5 per cent (reducing to 15.5 per cent starting July 1, 2010). An individual professional earning that same amount of personal income would pay tax at the top marginal personal tax rate of 46.4 per cent. Incorporated professionals can gain a significant tax deferral advantage by having the corporation invest after-tax corporate income, instead of earning the income in their personal capacities and then investing it.

### 2. Income Splitting

Income from a professional corporation can be redirected within a family group to take advantage of other family members' lower tax rates, credits and deductions, thereby keeping more after-tax income in the family. The professional's family members can own non-voting shares in the professional corporation, from which they can receive dividends. Good examples of family members with no other income would be a child at university or a stay-at-home spouse: each would be able to receive approximately \$40,000 of dividends tax-free annually.

These are just two of the good reasons for incorporating a dental or medical practice. A professional considering incorporation should consult with his/her financial advisor, accountant and lawyer.

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Torkin Manes' Tax, Trusts & Estates Law and Health Law Groups have extensive experience working with dentists and physicians, along with their financial advisors and accountants, on all aspects of their professional practices.

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