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Marmer Penner Inc. Newsletter

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Marcus Welby Ltd.

On May 11, 2005, Finance Minister, Mr. Greg Sopbara, delivered Ontario's 2005 budget. The budget did not change personal or corporate income tax rates, however there is one group of Ontario professionals who may see significant income tax savings as a result of one of the budget proposals.

The province committed to Ontario physicians operating through professional corporations that the province will now permit non-members of a profession (that is, family members) to own non-voting shares of professional corporations. The budget also announced that this proposal will be extended to Ontario dentists.

As a result, medical and dental professional corporations can now income split by way of dividends. Previously, while a medical practice was permitted to incorporate, all of the shareholders were required to be licensed doctors. Accordingly, the only income splitting available to the doctor was paying reasonable salaries to a spouse and children who may have assisted in the practice. Now with the revision to the permitted shareholders, a doctor may roll a practice into a new corporation wherein a spouse and children may hold separate classes of non-voting shares.

Readers of this newsletter are familiar with the recent increase in the small business deduction such that Ontario corporations may soon earn up to $300,000 per year in income subject to an 18.6% tax rate. This after-tax income will then be eligible to be paid as dividends to the doctor and related family members.

Let's consider an example of two doctors - Dr. Steven Kiley and Dr. Marcus Welby. Each doctor earns $300,000 of pre-tax income. However, young Dr. Kiley earns it personally and Dr. Welby earns it through a corporation. Dr. Kiley will have paid $124,000 in income tax in 2004, leaving him $176,000 of after-tax income.

Dr. Welby, who is older and wiser, chose not to take any salary leaving all $300,000 to be taxed in the corporation. Based on an 18.6% tax rate, this leaves about $244,000 of after-tax income in the corporation. If the Dr. and Mrs. Welby and their two adult children each receives one-quarter of this amount, or $61,000 in dividends, their combined personal income taxes amount about $22,000. This leaves the family $222,000 of after-tax income.

As a result, Dr. Welby's incorporated medical practice with family members permitted as shareholders allows his family to keep $46,000 ($222,000 - $176,000) more after-tax income.

The determination of a doctor's or dentist's income for support purposes may have just become more complicated as a result of the 2005 Ontario budget.