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New Dentists - Your Guide to Financial Independence

by David Chong Yen

A further update on the 2007 Federal budget. The budget received royal assent on June 22, 2007 (i.e. it is now official); and it is confirmed that for all qualified shares disposed on or after March 19, 2007, you might qualify for the full \$750,000 lifetime capital gains exemption.

After completing dental school, one's attention often focuses on personal, professional and financial goals.

This article will address practical tax and financial issues facing today's new dentists. Some of the comments are skewed toward a general practitioner versus a specialist.

Our observations indicate the typical "life cycle of a dentist"

Years Since Graduation:	Activities:
0 - 2	Associating, honing clinical and interpersonal skills, paying off student loans
3 - 10	Buy own practice; a few open their own practice; buy home
11 - 15	Buy own building where practice is located; more than a few get separated or divorced. Some buy a cottage
16 - 25	Hopefully in the peak earning years, and retirement and estate planning are prominent issues
26 - 35	Trying to maximize the value of their prized retirement asset (dental practice) and contemplating the sale of their practice in the most tax efficient manner

Mature graduates, some of whom received their training in a foreign country, but who have to complete a course of study in Canada, are more likely to buy or open their own practice sooner than later.

How Much Should I Expect to Make?

In your first two years of your associateship, your average gross earnings should be in the range of \$ 90,000 to \$240,000 depending on the location of the practice(s). The average amount paid to

an associate after lab fees ranges from 35% to 50%. Once you hone your clinical skills (0-2 years), consider opening or buying a practice. Your average gross earnings are likely to be in the range of \$150,000 to \$600,000. Again, this depends on where you practice and whether you are a general practitioner or specialist. Please note, if you were to start your own practice, you may sustain losses in the first couple of years. Although buying an existing practice is more costly than opening a new practice, the buying option is usually less risky. The banks' eagerness to finance purchases of existing practices attests to this.

Issues to Consider When Evaluating an Associateship:

Consider the following issues when evaluating an associate position?

- Does it meet your financial, clinical and practice management goals?
- What do previous associates think and why did they leave?
- Day sheets? This may indicate the type of work being done, the level of volume, etc.
- What services are being referred out versus performed in house?
- Determine number of active patients and new patients per month.
- Determine age and ethnic mix of the patients; what language do patients speak?
- Determine if co-payments are being collected.

- Determine which fee guide the dental office uses.
- Determine the amount of patients on social assistance.

Several issues need to be addressed, some with assistance from your lawyer:

- 1) Associate agreement? Consider the radius clause which is likely tucked inside the non-solicit/compete agreement. This is a clause that may restrict where you can practice once you leave your associate position. Discuss the enforceability of this clause with your lawyer.
- 2) What about Goods and Services Tax (GST) exposure?
- 3) Are you an "employee" or "independent contractor"? Did the agreement properly reflect this relationship? Being an independent contractor permits you to deduct more business related expenses in calculating your tax bill. Before signing the agreement, have your accountant review the agreement. Be careful of the implication which a non-solicit/compete agreement has on your independent contractor status.

Location – Where should I Practice?

As in many things, supply and demand can greatly impact one's financial success. Under serviced areas outside metropolitan hubs where demand for dental services exceeds supply, are often times lucrative. In Ontario, these include Ottawa, Sarnia, Fort Erie, Kitchener, Waterloo,

Cambridge, Guelph, Barrie, Orillia, Alliston, Milton, Orangeville and Bowmanville.

Tax Planning Ideas:

If your associate income, after deducting expenses, is \$120,000 or more, consider setting up a dentistry professional corporation. It is one of several tax saving tools available to dentists. In Ontario, a dentistry professional corporation may be owned by dentists and their family members as permitted by legislation since January 1, 2006. In 2000, when a professional corporation was first permitted in Ontario, only dentists were allowed to be shareholders of a dentistry professional corporation. However, it remains that only dentists can be the director of a dentistry professional corporation. Similar to any other corporation, a dentistry professional corporation is a separate legal and tax entity. However, a dentistry professional corporation must abide by the rules and regulations outlined by the Royal College of Dental Surgeons ("College"). It must also obtain authorization from the College prior to its operation.

Consider these tax saving ideas:

- Claim the tuition fees (both Canadian and foreign Universities), education and textbook amount.
- Claim the student loan interest (only interest paid on Canada Student Loan and Provincial Student loans are allowed).
- Claim those books you have purchased during dental school.
- Claim the computer/digital camera/software/blackberry/palm pilot/cell phone that you purchased and used in connection with your associateship/practice.
- Claim your dental equipment and instruments.
- Claim medical expenses including laser eye or cosmetic surgery, travel insurance or health plan premium.
- Claim child care expenses including the amount paid to your relative who are 18 and older to care for your kids who are 16 and younger.
- Claim the TTC or GO train passes.
- Claim moving expenses.
- Pay low income family members for assisting you with bookkeeping, moving, etc.
- Claim business expenses like cell phone, meals & entertainment, automobile, seminars, conventions, membership fees, etc.
- Incorporate a professional corporation to save taxes; tax savings using a professional corporation may be achieved by paying dividends to poorer family members including parents, spouse and children who are 18 years and older. These poorer family members may pay tax on the dividends they receive but at a lower rate than the dentist would pay.

You will be in a better position to face a potential Canada Revenue Agency audit (tax department), by implementing these steps:

- Separating personal expenses from business expenses e.g. use a separate charge card and bank account for your dental associateship or practice.
- Keep all business related receipts, bank deposit book and cheques.
- Track expenses as outlined by your accountant.
- Keep track of your business kilometers driven.

All of the above information must be retained for 7 years. That means in 2007, you may dispose of year 2000 tax information and prior.

Which Loans to Repay First?

Which debts or loans should I repay first? These debts might include student loan, personal loan or line of credit, home mortgage, car loan, investment loan and business loan. Generally, you should repay loans which generate non-deductible interest as soon as possible, i.e. home mortgage, personal loan, or line of credit, which were used for personal purposes. Note: loans used for business or investment purposes can reduce your tax bill, since the interest is tax deductible.

Student loans such as the Canada Student Loan, and loans made by the respective provinces generate interest. This interest will reduce your tax bill via a non-refundable tax credit. If these loans (Canada Student Loans, Provincial Student Loans) are paid off using a line of credit, you will not get any tax relief arising from the line of credit.

Traps to Avoid:

Some traps to avoid during your career are:

- Borrowing to buy expensive car before buying your dental practice.
- Getting divorced without a marriage contract or alternatively consider a prenuptial agreement.
- Spending more than you earn; because dentists get paid for the services they provide, fairly quickly, many base their spending on these collections. They often ignore their expenses or the taxes they owe. Each month, consider having your taxes, RRSP's, funding for children's education and investments automatically withdrawn from your bank account. What you do not see, you will not likely spend.
- Pretending to be an expert in all fields; know your strengths and weaknesses; research those who can assist in compensating for your weaknesses; then hire them. Concentrate on those things which you do best.
- A disciplined approach to virtually any activity you pursue will most often yield better results than the "home run" approach i.e. trying to get a base hit every time you are at bat will yield better results than risking everything for that home run. This philosophy applies to investing, operating your practice, etc.

- Keeping up with the Jones' often lead to financial disaster; run your own race as you are your best competitor.

David Chong Yen, CFP, CA with an international firm background and more than twenty-four years of experience, advises healthcare professionals and owner-managers. Additional information can be obtained by phone (416) 510-8888, fax (416) 510-2699, or Email david@dcy.ca.

This article is intended to present tax saving and tax planning ideas and is not intended to replace professional advice.