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Top 14 Financial & Tax Year End Planning Ideas

by Peter J, Merrick (Dental Practice Management Magazine, Winter 2004)

At the core of Paddi's belief system is the understanding that money can't buy happiness but the lack of money can be one of the contributing factors leading to unhappiness. Financially smart people the world over know that it's not about how much you make, it's what you keep at the end of the day. One of the major aspects of being financially successful in Canada is to understand that the biggest expense we pay in a year is taxes. Reducing taxes is not only morally and ethically right, it is an absolute essential and it's smart.

Paddi's recommendations for finding both balance and success in life and in business is for business people to build networks of financial professionals who understand their businesses, who will help them find the right business structure, resulting in paying less taxes, protecting what they have and allowing them to sleep at night.

Keeping that thought in mind, I was very fascinated to learn about a Chartered Accountant (CA) name David Chong Yen in Toronto, whose CA firm is focused on and advises several hundred dental practices, approximately 20 percent of the dentists in the Greater Toronto Area. What makes David's CA practice unique and invaluable to his clients is his understanding of the issues his clients face. By specializing in the dental community, he not only acts as their tax advisor but also as their business consultant.

One example of how he accomplishes this is twice a year he completes financial statements for each of his clients. This allows David and his team to have their clients compare their particular dental practices with top quartile dental practices, using a proprietary bench marking system. Here, David and his clients compare their specific practices with successful practices in areas of salaries, dental supplies, lab fees, advertising, office supplies, and hygiene revenue as apart of their total revenues. Having this specific information detailed for each client, David is able to make specific recommendations and offer solutions to help his clients maximize their earnings, while reducing their expenses and taxes.

It's year-end again, and many dentists-before they know it-will have to file both personal and corporate tax returns. So lets take Dr. Paddi Lund's advice about working with tax and financial professionals and learn about "the top 14 financial and tax year-end planning ideas" David Chong Yen recommends to his dental clients to reduce their taxes, the following:

1. Pay a reasonable salary and bonus to family members including spouse and children for services they o rendered to your practice. Prepare a job description for the services they each render .
2. Pay a reasonable amount for child-care services to your children who are 18 years or older for

- babysitting your children who are under 16 years.
3. Pay a dividend to your children who are 18 years or older, especially those attending university and who are poor. This idea can be easily facilitated, if you have a hygiene or technical service corporation.
 4. Do regular estate planning with your accountant, lawyer and financial planner, and consider updating your will and power of attorney.
 5. If you have a mortgage on your home and have capital in your practice, consider writing a cheque from the practice to yourself, depleting this capital balance. After using this money to reduce or eliminate your home mortgage you then go to the bank for a personal investment/business loan and invest the money back into your practice. This strategy converts the non-tax deductible interest you pay for your mortgage into a tax deductible investment loan, plus it can also 'creditor proof' your money.
 6. Consider taking continuing education, clinical and professional development courses, and seminars. Retain seminar, CE material and CE certificates in case of an audit. RCDS provides a printout of the CE courses you participated in. Keep it for the tax department.
 7. a) Develop a budget/forecast for your practice for next year. This will provide you with a road map/destination, and will serve to motivate you and your staff.
b) Develop a personal budget for your own living expenses. This should be done with your spouse or partner's input and consider working with a certified financial planner to accomplish this.
 8. Consider buying and installing big ticket items for your practice before year-end, i.e. equipment, renovations, computer software, etc., that will increase your tax deductible expenses as your capital cost allowance (tax depreciation) increases.
 9. Consider creating a hygiene or a technical service corporation as a vehicle to handle your hygiene income, such as that from hygienists. If you have not done this so far, consider creating a professional corporation for your dental practice. A PC is used to operate what would have otherwise been your dental practice. These vehicles could result in tax savings and/or a tax deferral, since corporations are taxed at 18.62 percent on the first \$250,000 of taxable income for calendar year 2004 compared with the top combined federal and provincial tax rates that range upwards of 48 percent in certain provinces.
 10. If you have a PC, consider using other retirement III planning and retirement solutions. You may be an un-incorporated dentist, who each year dutifully makes your maximum RRSP contributions. You have come to think that this is the limit to your registered retirement planning. However for high earners who are employed by Professional Corporations (PC), CRA has little-known avenues that allow for massive additional contributions. This creates a "super RRSP" which is fully deductibility by your PC and a non-taxable benefit for yourself. In these vehicles all growth of your assets are tax-deferred until withdrawal. The value of Individual Pension Plans (IPPs) and Retirement Compensation Agreements (RCAs) tax solutions allow for hundreds of thousands of dollars of additional tax-deferred income to be channeled into them for your retirement.
 11. The Corporate Retirement Income Maximizer (CRIM) provides tax-sheltered growth within the company. Use a corporate-owned life insurance contract, which creates cash values. Access these funds personally during your lifetime by collateralizing loans from a bank. Borrow funds annually to increase your retirement cash flow. Use appropriate documentation and guarantee fees to avoid a personal benefit. The bank loan is paid automatically at your death using a portion of the policy proceeds while a credit to the Capital Dividend Account (CDA) is created equal to the full policy proceeds.
 12. If you have a PC, consider creating a Health Spending Account (HSA) for yourself. A HSA is a bank account whose deposits are spent exclusively on healthcare expenses. By having a HSA, you are able to convert healthcare expenses into 100 percent business deductions and a nontaxable benefit for yourself. You determine the contribution amount each year and you determine how to spend your benefit dollars. Best of all, unlike traditional medical and dental plans, even if the money is not

spent that year, the money will remain in the account for your future use. In essence, if you don't use it, you don't lose it.

13. Consider converting your dental hygienists who are currently employed by your practice into independent consultants. According to KPMG up to 41 percent of a company's gross annual payroll is associated with employee benefits, so using independent consultants can offer considerable savings. They make their own Employment Insurance and Canada Pension Plan contributions, and relieve a dental practice of the responsibility for benefit plans that can include medical and dental benefits, long-term disability insurance, life insurance, savings and RRSPs. The tax issues associated with independent consultants should be addressed before implementing this.
14. Seek out objective advice from chartered accountants, certified financial planners, and lawyers on your tax, financial, business succession and estate planning. Professional tax, financial planning and legal advisors will guide you through the legal, tax, and investment mazes.

In closing, I would like to leave you with a personal observation. All the highly successful people I have worked with had a very clearly defined, written life, career and financial plans. They believed implicitly and unshakably in their plan and were impervious to external circumstances. They didn't alter their plan every time the wind changed direction, and continued to work their plan unwaveringly, no matter how long it took, until their plan succeeded. As the old adage goes: "Those that fail to plan, plan to fail."

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.