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INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

## Wealth planning for healthcare professionals – The early years

Please contact us for more information about the topics discussed in this article.

Whether you're a new graduate, working as an associate, running your own practice or approaching retirement, there are important tax, financial and retirement planning considerations at every stage of your career. As your personal, professional and financial situations evolve, you should ensure that you've done appropriate planning to help you achieve your goals and objectives throughout the different stages of your professional life. This article addresses the relevant issues you may face when first starting out in the medical or dental field.

### **Choosing a practice arrangement that is right for you**

As a new graduate entering the profession, there are several ways to practice medicine and dentistry and there are different settings in which you can practice. Physicians and dentists can provide their services through their own private, owner-operated small business or they can provide their services to public health agencies, hospitals, the military and other establishments such as universities, clinics or long-term care facilities as an associate.

When choosing how you will start practicing, you should consider any student debt you may have following graduation, the risks associated with

starting your own practice from scratch, and the capital required to purchase an existing practice.

### **Employee vs. independent contractor**

Generally, an associate in a medical or dental practice has no ownership or equity interest in the practice but simply works in that practice or setting. An associate's status could be that of an employee or independent contractor, depending on the work arrangement mutually agreed upon by the associate and the practice owner. The arrangement should be formally specified in a contract.

Some physicians and dentists are considered an employee or salaried individual and are paid by

their employer as per the terms of their employment contract. However, most physicians working in private clinics or hospitals and most dentists working in private practice are considered independent contractors or self-employed individuals.

The question of whether an individual is in a business relationship (i.e., self-employed, or independent contractor) or in an employee-employer relationship with the practice or institution is important from both a legal and tax perspective. From a legal perspective, the classification of an employee or independent contractor determines which laws govern and protect your relationship with the business. For example, employees are protected by the applicable employment legislation and common-law or the Civil Code of Quebec with respect to termination, while independent contractors generally do not enjoy such protection. From a tax perspective, employees will have income taxes, Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) contributions and Employment Insurance (EI) premiums deducted by their employer from their pay and

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remitted to the government on their behalf. Independent contractors do not have statutory deductions withheld from their billings; rather, independent contractors are generally required to remit quarterly tax instalments to the government as well as pay certain expenses out of pocket that would normally be covered by an employer. On the other hand, while employees have little ability to claim any deductions against their employment income, independent contractors may be able to claim business expenses incurred as deductions on their income tax returns, provided the expenses are reasonable and were incurred for the purpose of earning income.

### Summary of advantages and disadvantages of being an employee vs. independent contractor

	Advantage	Disadvantage
Employee	<ul style="list-style-type: none"> <li>• Fixed negotiated salary.</li> <li>• Qualifies for EI.</li> <li>• 50% of CPP/QPP premiums paid by employer.</li> <li>• Participation in employee benefits (i.e., paid vacation time, extended health benefits, pension plans).</li> <li>• Potential for severance pay if terminated.</li> </ul>	<ul style="list-style-type: none"> <li>• Limited ability to earn more money.</li> <li>• Must pay for EI premiums.</li> <li>• Very few expenses are tax-deductible.</li> <li>• Less control over hours of work and working conditions.</li> <li>• May be restricted to working for one employer.</li> </ul>
Independent contractor	<ul style="list-style-type: none"> <li>• Income is determined by volume of procedures and services performed.</li> <li>• Optional EI premiums.</li> <li>• May be able to deduct business-related expenses.</li> <li>• More freedom to choose own working hours and can work for more than one client.</li> </ul>	<ul style="list-style-type: none"> <li>• No fixed or minimum income.</li> <li>• No severance pay, generally, if contract is terminated.</li> <li>• Must pay employee and employer portions of CPP/QPP and EI (if opting for EI coverage).</li> <li>• No employee benefits.</li> </ul>

The specific provisions in a contract will act as a guide in determining the nature of the relationship; however, the essence of the relationship determines whether an individual is an employee or an independent contractor, regardless of what is written in the contract. There have

been many court cases that have addressed the question of whether someone is an employee or independent contractor. The courts generally look at the following factors to determine whether the professional is acting as an employee or an independent contractor:

## Factors in determining employee or independent contractor status

Factors	Employee	Independent contractor
Degree of control and supervision	High degree of supervision and control by the employer over professional's activities.	Low degree of supervision and control by employer over professional's activities.
Equipment and helpers	Little to no monetary investment in the practice. The employer provides equipment and helpers.	High level of monetary investment in practice. The professional provides his/her own equipment and helpers.
Chance of profit and risk of loss	The professional doesn't participate in the practice's profits and has little financial risk.	The professional has opportunity to profit and has a degree of financial risk.
Integration	The professional receives the economic rights, privileges and benefits, normally enjoyed by employees. The professional's income is mainly derived from a single employer and his/her work is an essential component of the business.	The professional works for more than one client (or has the ability to have more than one client).
Intention of parties	The parties' intentions and the existence of a written contract indicate that there is an employer-employee relationship assuming the actual circumstances point towards a legitimate employment relationship.	The parties' intentions and the existence of a written contract indicate that the professional is working as an independent contractor assuming that the actual circumstances point to a legitimate contractual relationship.

This isn't an exhaustive list of factors and there's no set formula in their application. The relative weight of each factor will depend on the particular facts and circumstances of the case. It's recommended that you review your associate agreement with a qualified legal professional to ensure that it truly reflects an employee or independent contractor relationship with the practice or institution with which you are working. You can also request a ruling from the Canada Revenue Agency (CRA) or Revenu Quebec to provide you with certainty about the status of the relationship into which you have entered.

It's advisable that you determine whether you're an employee or self-employed contractor prior to the start of your work contract.

### Managing your finances

It's important to review your financial situation to ensure that you choose a practice option that meets your needs. The following are some of the things you should consider.

### Student debt

Only interest payments on loans negotiated and still existing under the Canada Student Loans Act, Canada Student Financial Assistance Act, Apprentice Loans Act or a similar provincial/territorial legislation are eligible for a 15% federal non-refundable tax credit. If you do not have taxes payable for the year interest is paid, you can carry the interest forward for up to five years. Interest paid for any other indebtedness, such as bank loans or lines of credit (LOCs), will not be eligible for this credit and is not tax deductible. As such, newly licensed physicians and dentists with bank loans or LOC may want to pay off these debts first as interest on personal non-deductible debt can be very costly.

### Cashflow management

A budget is a plan to help you keep track of your income and expenses to give you a clear picture of where your money is coming from and where your money is being spent. The goal of a budget is to make sure that you don't spend more

than you earn. It can help you identify problem areas (e.g., overspending) and possibly quantify excess cash. Excess cash can be used to pay off your debt faster or avoid increasing your debt load and/or be contributed towards retirement savings or an emergency fund.

### Asset allocation

If, after all your expenses, you have money left over, you may be wondering what to do with the savings. What you invest in depends on your personal financial goals and objectives. Are you saving for a wedding, a car, a home, or retirement? Do you want to grow your money for the future? Do you want to save to open your own practice in the near future? Your financial goals and objectives will determine which accounts, such as a tax-free savings account (TFSA), tax-free first home savings account (FHSA), and registered retirement savings plan (RRSP), you should use to house your savings.

Speak with a qualified financial planner who can assist you with banking, credit and other financial information to help you meet your financial goals.

### Disability planning

While you are in the process of establishing your career in the medical or dental profession, you also need to protect yourself in the face of unexpected events, such as disability or job interruption. It's recommended that you have at least three months' worth of income in an accessible form (such as, savings or liquid investments) in case of emergencies. A TFSA may be a good place to invest your emergency fund as the income generated in the TFSA is earned tax-free and withdrawals made from a TFSA are not taxable.

Disability insurance is one form of insurance which will provide a portion of your regular income in the event you become disabled. Disability insurance premiums are not tax-deductible. However, disability payments are also not taxable when they are paid. Another type of insurance is critical illness insurance. This type of insurance provides a lump-sum payment if you're faced with certain listed types of illnesses, such as cancer, a stroke, or a heart attack. Lastly, life insurance is a type of insurance that pays an amount in the event of the insured's death. These funds can be used by beneficiaries to pay off the deceased's debts and expenses or be used to create a legacy. Speak with a licensed insurance representative for more information.

If you are employed, insurance coverage may be provided by your employer as part of a benefit plan. Consult with your employer to understand your benefits and potential insurance coverage.

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### Estate planning

Estate planning involves the transfer of your assets when you die, as well as a variety of other personal matters. It's important to keep in mind your family's needs as part of your estate plan. A Will and powers of attorney (POAs) for property and for personal care are the most common tools used in estate planning.

A Will is a legal document that can help ensure your assets pass according to your wishes after your death. Your Will only becomes effective on death, and if probated, becomes a public document. During your lifetime, you can change the terms or revoke your Will as long as you are mentally competent.

A POA is a legal document in which you give another person(s), referred to as the attorney(s), the power and authority to act on your behalf. A POA is most important in case you should become incapacitated and cannot perform for yourself your normal daily tasks, such as paying bills and managing your investments. A POA for property allows an attorney(s) to make decisions about your financial and property matters. A different legal document may be used in some provinces to make personal care decisions. In some provinces, you can execute one document which will contain your authority for an attorney to act on your behalf in relation to financial and property matters as well as personal care matters.

If you have not already done so, speak with a qualified legal advisor about Wills and POAs. Having an up-to-date Will and POAs in place can help avoid unnecessary stress and expense at what can be a difficult time and ensure that your wishes are carried out.

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