



# Tax Planning for Incorporated Professionals

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# A PERSONAL NOTE OF WELCOME FROM EVELYN JACKS, PRESIDENT, KNOWLEDGE BUREAU

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We are a national certified, post-secondary institution which provides business and financial education to individuals, professionals and workplaces, leading to verifiable and specialized credentials.

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# Tax Planning for Incorporated Professionals

<p><b>OVERVIEW</b></p> <p>This course focuses on personal and corporate tax planning for small to medium-sized businesses, owned and operated by professionals, with a special focus on financial advisors and medical practitioners. Retirement and succession planning is also an integral part of the course.</p> <p>Gain an understanding of the tax rules pertinent for professional corporations, including access to Small Business Deduction limit and taxation of income held within a corporation.</p>
<p><b>APPROACH</b></p> <p>-</p>
<p><b>WHY IS THIS CONTENT ESPECIALLY TIMELY AND/OR IMPORTANT</b></p> <p>Strategies that have been used by business owners and their advisors for decades, may no longer be valid. Regardless of your political affiliation, advisors need to be aware of these changes and understand what impact they will have on their clients.</p> <p>This course highlights those changes and outlines proper planning and compliance issues for professional tax and financial advisors charged with assisting these businesses.</p>
<p><b>WHAT YOU WILL LEARN?</b></p> <p>This course will teach you how tax compliance differs for micro- and medium-sized businesses. You'll learn about shareholder matters as they relate to corporate and shareholder tax planning and corporate structure review. Also covered are tax efficiencies such as income splitting, income averaging, tax exemptions and deferrals. You'll discover the top ten strategies for retirement and succession planning and how to sell a block of business—as in shares versus assets and evaluating access to lifetime capital gains exemption.</p>
<p><b>SCOPE OF THE CONTENT:</b></p> <ol style="list-style-type: none"> <li>1. Tax Rules for Professional Corporations</li> <li>2. Incorporated vs Non-Incorporated Professional Businesses</li> <li>3. Corporate Structures</li> <li>4. Shareholder Remuneration</li> <li>5. Corporate Shareholder Integration Theory</li> <li>6. Using the PC for Family Benefits</li> <li>7. Retirement Planning for the Incorporated Professional</li> <li>8. Getting the Business Ready for Sale</li> <li>9. Selling the Professional Practice</li> <li>10. Succession Planning: Top Ten Tips</li> </ol>

# CHAPTER 1

## TAX RULES FOR PROFESSIONAL CORPORATIONS

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### KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will learn the key principles utilized in recording and determining business income, including an understanding of accrual-based accounting as it pertains to professional corporations.

### NEW SKILLS TO BE MASTERED:

The student will gain an ability to understand how key accounting concepts, such as the accrual basis of accounting and the matching concept apply to the determination of professional income.

### READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Be able to understand and explain the application of ASPE (Accounting Standards for Private Enterprises) for Professional Corporations.

## CHAPTER 2

### INCORPORATED V. NON-INCORPORATED PROFESSIONAL BUSINESSES

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#### KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will gain an understanding of the key tax and legal distinctions between an unincorporated professional practice versus an incorporated professional practice (known as a professional corporation or PC). The student will also gain an appreciation of the benefits and advantages of incorporation.

#### NEW SKILLS TO BE MASTERED:

The student will learn how income within a professional corporation is taxed, the mechanics and issues involved in transferring a practice to a PC and the tax planning considerations around the transfer and taxation of practice goodwill.

#### READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Be able to explain the key legal and tax distinctions of an unincorporated versus an incorporated business.
- Understand and explain the key tax advantages in incorporating.
- Understanding the basic mechanics of incorporating and the tax considerations of goodwill and professional work-in-progress (WIP).

## CHAPTER 3

### CORPORATE STRUCTURES

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#### KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will gain an understanding of the basic corporate structures utilized for professional corporations and their shareholders. Several corporate structures will be reviewed with commentary on the ability to access the \$500K SBD Limit, defer tax and, where possible, income-split with other family members. Historically, in a private company setting, income-splitting was a significant motivation for how businesses were structured. The tax on split income (“TOSI”) rules are contained in Section 120.4 of the *Income Tax Act* (the “Act”). These provisions underwent a significant amendment effective January 1, 2018 (Bill C-74, *Budget Implementation Act, 2018*, No.1 received Royal Assent on June 21, 2018). These revisions severely limit the opportunities for business owners to split income with family members.

#### NEW SKILLS TO BE MASTERED:

The student will gain an ability to recognize and understand the tax implications relating to various corporate structures and how share capital can be designed in a PC to meet the business and family objectives pertaining to ownership, liability and, in limited circumstances, income-splitting.

#### READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Explain how a corporate structure is taxed and determine its access to the \$500K Annual SBD Limit
- Understand and explain how the Articles of a PC would be structured to create shares with different attributes and why.

## CHAPTER 4

### SHAREHOLDER REMUNERATION

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#### KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will gain an understanding of the different forms of remuneration available to an incorporated professional and related family members of the PC. The ability, however, to `split` income with family members has been severely restricted. The student will recognize the basic planning opportunities in order to structure remuneration in a tax-efficient manner, while also minimizing the potential for tax risk.

#### NEW SKILLS TO BE MASTERED:

The student should gain an ability to understand the tax consequences to both the shareholder and the PC as to the payment of different forms of remuneration, including salaries, year-end bonuses, and dividends. The student will also learn how to properly report and disclose such forms of remuneration on the corporate T2 Return.

#### READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Explain how the payment of a salary versus the payment of a dividend is treated for tax purposes
  - To the shareholder
  - To the corporation
- Explain the tax consequences to a corporation if an accrued bonus is not paid within 179 days of the amount being accrued.
- What are the factors that CRA considers as to the “reasonableness” of a salary paid to a shareholder or a family member of a company?

## CHAPTER 5

### CORPORATE / SHAREHOLDER INTEGRATION THEORY

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#### KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will gain a basic understanding of the fundamental concept of corporate and shareholder (personal) taxation, which “underpins” the principles governing our Canadian taxation system. The student will gain an appreciation of how personal and corporate tax rates affect the integration of income earned directly by the individual.

#### NEW SKILLS TO BE MASTERED:

The student should gain an ability to recognize opportunities for tax planning by understanding the mechanics of corporate/personal tax-integration, particularly for professional corporations. The student will also recognize how different forms of corporate income (Active Business Income subject to the Small Business Deduction, General Rate Income Pool (GRIP) Business Income, and Specified Investment Business Income) integrate when paid out to the shareholder in the form of a dividend.

#### READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Explain how “double-tax” is avoided when corporately tax-paid earnings are distributed to a shareholder in the form of a dividend.
- Explain how “double-tax” is avoided on the distribution of capital gains taxed within a corporation.
- What is Refundable Dividend Tax On Hand (“RDTOH”) and how does it operate to avoid “double-tax to a shareholder?”



## CHAPTER 6

### USING THE PC FOR FAMILY BENEFITS

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#### KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will gain an understanding of how a PC can be used to fund certain life insurance and health care costs for the incorporated professional and his/her family members. The concept of a Private Health Services Plan (PHSP) will be explained.

#### NEW SKILLS TO BE MASTERED:

The student will be able to recognize opportunities to utilize the low corporate tax rates of a PC effectively for the incorporated professional.

#### READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Be able to explain what a PHSP plan is and how it is taxed to the employer/employee.
- Be able to explain the benefits of holding a life insurance policy within the PC.

## CHAPTER 7

### RETIREMENT PLANNING FOR THE INCORPORATED PROFESSIONAL

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#### KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will gain a comprehension of the way in which incorporated professionals can accumulate wealth for retirement. The student will learn and understand how taxation and the correct structure contribute to the accumulation of wealth.

#### NEW SKILLS TO BE MASTERED:

The student will learn the basic principles of how tax interfaces with wealth accumulation and the “Rules of Thumb” in making decisions about whether to accumulate inside the PC, versus personally, through a TFSA or an RRSP.

#### READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Be able to explain how corporate versus personal tax rates affect retirement wealth accumulation.
- Understand the process to identify and evaluate options and to make effective decisions in structuring a wealth accumulation strategy.

## CHAPTER 8

### GETTING THE BUSINESS READY FOR SALE

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#### KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

You will learn how the corporate structure affects the way a business can be sold. The student will also gain an understanding of how various corporate structures are utilized for professionals and how their businesses should be optimally structured to minimize taxes.

#### NEW SKILLS TO BE MASTERED:

The student will gain an understanding of the ways that businesses are taxed when sold and the relevant factors that must be present to access the Lifetime Capital Gains Exemption.

#### READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Explain how corporate structure impacts the sale of a professional business.

## CHAPTER 9

### SELLING THE PROFESSIONAL PRACTICE

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#### KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will gain an understanding of the various ways in which a PC can be sold. This chapter will focus on the different tax attributes pertaining to a sale of shares versus a sale of assets, versus a structured “earn-out”. The tax rules pertaining to the use of the Lifetime Capital Gains Exemption (LCGE) will be reviewed together with a summary of the tests to be met and the usual pitfalls and constraints.

#### NEW SKILLS TO BE MASTERED:

The student will be able to explain the tax consequences relating to different sale scenarios and recognize opportunities and pitfalls for each structural alternative.

#### READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Be able to explain the different tax results and analyze and understand the tax calculations for each type of “sale” alternative”.
- Be able to explain the two basic tests that permit an incorporated professional to access the LCGE on a sale of the PC shares.

## CHAPTER 10

### SUCCESSION PLANNING – TOP TEN TIPS

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#### KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

This chapter summarizes the issues relating to the process of implementing a succession plan. The student will gain an understanding and appreciation of the timelines and various issues relating to succession planning for professionals.

#### NEW SKILLS TO BE MASTERED:

The student will learn to identify the key concepts relating to a good business succession strategy for their clients and be able to explain the considerations impacting the incorporated professional.

#### READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Be able to explain how privately owned professional corporations would sell or transition their business to other family members.
- Be able to explain how and why business assets should be separated from investment assets within the PC.

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**"It is important that we are proactive in terms of planning our clients' affairs. Knowledge Bureau continues to provide me with relevant knowledge and strategies to help my clients navigate through the complex world of finance, life and taxation."**

- George Donkor, ON

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## LEVEL I COURSES - CORE PROFESSIONAL SKILLS

Build your core professional skills by taking the three courses below.

Understand family-owned enterprises throughout the lifecycle of the business - from startup to successful transition. That insight requires a firm understanding of the latest tax changes for incorporated family businesses.

1

### Corporate Tax Filing Fundamentals

This course serves as an introduction to the filing of a corporate income tax return for small business operating under a corporate structure as a Canadian Controlled Private Corporation (CCPC). From a company's transformation from Proprietorship through to Corporation, this course will teach you the fundamentals of filing a T2 return for the majority of small business corporations

#### Knowledge Journal Topics:

- Basis of Reporting Income
- Understanding the Corporate Balance Sheet
- Understanding Shareholder Equity
- Sources of Corporate Income
- Creating an Audit Trail for CRA Purposes
- Completing the T2 Return
- Tax Reserves
- Shareholder Remuneration
- Corporate/Shareholder Integration Theory

2

### Tax Planning for Corporate Owner-Managers

New tax legislation has created "new realities" for owners of private corporations and they have added considerable complexity to the tax component of this process. Learn to provide advice throughout the year with a view to minimizing the total amount of income taxes paid by the family.

#### Knowledge Journal Topics:

- The Taxation of Business Income and Its Integration in Personal Taxation
- Understanding Family Compensation Requirements
- Income Tax Treatment of Salary
- Income Tax Treatment of Dividends
- Other Compensation Issues - Benefits, Shareholder Loans
- Income Splitting, Kiddie Tax, Tax on Split Income
- Basic Issues in Using a Holding Company or Trust
- Registered Deferred Income Plans
- Unregistered Deferred Income Plans
- Planning Pitfalls - the Capital Gains Deduction, CNIL, ABIL's

3

### Tax Planning for Incorporated Professionals

This course will focus on personal and corporate tax planning for small to medium sized businesses, owned and operated by professionals, with a special focus on financial advisors and medical practitioners. Retirement and succession planning is an integral part of the course.

#### Knowledge Journal Topics:

- Tax Rules for Professional Corporations
- Incorporated vs Non-Incorporated Professional Businesses
- Corporate Structures
- Shareholder Remuneration
- Corporate/Shareholder Integration Theory
- Using the PC for Family Benefits
- Retirement Planning for the Incorporated Professional
- Getting the Business Ready for Sale

"This program was very challenging and the information contained was valuable to me in my practice. I plan to keep my journal nearby as a reference when required. This is a very valuable program for anyone in private practice."

- Heather McLeod, MFATM - Business Services Specialist

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4

### Cross Border Taxation

Advisors who work with affluent boomers must be prepared to discuss cross border taxation with a comprehensive general knowledge, as well as recognize and advise on how certain actions on both sides of the border affect a person's tax situation.

#### Knowledge Journal Topics:

- Residency
- Immigration and Emigration
- Snowbirds
- Owning Property as a Non-resident
- Canada - U.S. Tax Treaty
- U.S. Citizenship
- Canadian and U.S. Investments (including FATCA)
- U.S. Estate and Gift Tax
- Renouncing U.S. Citizenship

5

### Understanding Business Valuation

This course is designed in a practical format and will help an advisor become a valuable resource to their clients when considering business valuation issues. The objective of this course is to provide an overview of the fundamentals of business valuation, enabling advisors to assist clients in facing various types of business transactions, including mergers, transfer of an ownership position, sale of a business, or raising capital.

#### Knowledge Journal Topics:

- The Notion of Value
- Valuation Approaches: Company Specific
- Valuation Approaches: Market-Based
- Issues That Could Impact Value
- Business Transactions: Preparation Stage
- Business Transactions: Closing and Transition
- Value and Investment Transactions
- Business Succession
- Financial Performance and Implications
- Selected Topics in Valuation

6

### Use of Trusts in Tax & Estate Planning

Trusts are used on an ever-increasing basis to plan for the wealth and succession objectives of medium and high-worth clients. The advisor with the ability to assist with that process creates the opportunity to establish a long-term, potentially intergenerational connection with a client and their family; provided their strategy considers recent tax changes in the planning process.

#### Knowledge Journal Topics:

- Basic Trust Mechanics
- Trusts as Mechanisms to Exert Control
- Basic Tax Treatment
- Testamentary Trusts
- Inter Vivos Trusts, Inter Vivos Trusts
- Charitable Remainder Trusts
- Alter Ego a& Joint Partner Trusts
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- Spousal Trusts
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### About Knowledge Bureau:

Founded by tax expert, award-winning financial educator and best-selling author, Evelyn Jacks in 2003, Knowledge Bureau™ is a widely respected financial education institute and publisher based in Canada. Our world-class education solutions are innovative, informative, and in-depth, with a multi-disciplinary approach to professional development in the tax, accounting, bookkeeping and financial services.

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**“Our team of educational consultants and instructors make all the difference. We are always by your side as you study in the convenience of home or office. We want you to make the best educational decisions for your time and money and we are here to help.”**

- Evelyn Jacks, President of Knowledge Bureau

**“Everything so far has had value to it. These studies have added to my knowledge and skills and I have put this knowledge to use immediately for our clients or I gained new skills which has given me the opportunity to expand our services.”**

- William Samplonius, ON

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