President’s Letter

August 1, 2017

Proposed tax reforms to private corporations

Dear Colleagues,

As you may know, the federal Department of Finance released a set of new proposals on July 18 for amending the tax rules that apply to private corporations. These proposals are posted online at www.fin.gc.ca/activty/consult/tppc-pfsp-eng.pdf.

The proposed changes would affect all independent professionals across Canada who have set up as private corporations. This includes physicians, as well as dentists, restauranteurs, farmers, store owners, lawyers and every small business that is incorporated.

The government states that it believes the owners of private corporations should be taxed in the same fashion as individuals who earn employment income. Specifically, the Finance Department wants to tighten the current rules regarding:

1. Sprinkling income using private corporations;
2. Converting a private corporation’s regular income into capital gains, and,
3. Holding a passive investment portfolio inside a private corporation.

The Federal Government’s new proposals remove most of the original benefit from forming a corporation. To better understand the Federal Government’s proposals, we encourage you to read the analysis prepared by MD Financial Management, which is available here.

The Federal Government has launched a 75-day public consultation period, which invites feedback from Canadians until October 2, 2017. The Canadian Medical Association is taking the lead on this issue at the national level and is participating in the Federal Government’s consultation process. CMA is working with MD Financial Management, and legal and tax experts, to prepare a comprehensive submission that will be presented to the federal finance minister. NLMA and other provincial and territorial medical associations (PTMAs) are meeting regularly with the CMA to ensure that the submission takes into account the realities in each province.

Coordination of public communications and advocacy is also being led by the CMA, with input from the PTMAs. CMA’s strategy is to educate the public and decision makers about the implications of the proposed changes. The CMA is also forming alliances with other affected groups that represent professionals and businesses across Canada to bolster advocacy efforts.

NLMA is committed to continuing to work with the CMA and the other PTMAs to educate decision-makers about the significant impact these proposals will have on physicians. We will also raise these issue with politicians directly at the provincial and federal level.

In Newfoundland and Labrador, there are 573 registered Professional Medical Corporations, representing approximately 626 physicians. The right to allow medical professionals in Newfoundland and Labrador to incorporate was established by the provincial government in coordination with physicians. The province enabled physicians to incorporate because the potential tax management opportunities assisted with physician compensation and retirement planning. The proposed federal tax changes effectively undermine these established arrangements.

The vast majority of physicians who are incorporated operate as self-employed professionals, often managing overhead expenses. They have rent, utilities, operating expenses and staff salaries. Unlike employees, they typically do not benefit from health benefits, pension plans or other benefits afforded to salaried employees. Physicians and other small business people also invest capital and take risks to earn income. Furthermore, unlike other small businesses, physicians do not operate in a free market. While most other professionals can pass on higher costs to customers, physicians cannot charge higher fees to patients.

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Like most provinces, Newfoundland and Labrador competes at the international level to recruit and retain doctors. In fact, approximately 40% of our membership are international medical graduates. Therefore, in order to entice doctors to stay and practice here, we need to create an environment that allows physicians to earn a level of income that is competitive with their colleagues in other parts of the world as the international demand for physicians intensifies.

The NLMA encourages members to share their concerns both with us and the government. Your feedback can be sent to president@nlma.nl.ca and we will ensure that your perspectives are shared with the CMA as it develops its submission to the Federal Department of Finance.

We also encourage you to share your individual concerns with your Member of Parliament. A list of Newfoundland and Labrador MPs and their email addresses is attached to this letter along with a template you are welcome to use when preparing your letter. The letter is written primarily from a fee-for-service perspective, but we welcome salaried members who are incorporated to also use the template as a guide. We ask that you please copy the NLMA if you choose to write to your MP.

The NLMA will keep your apprised with updates as the consultation process unfolds. In the meantime, we strongly encourage you to discuss your specific circumstances with your tax advisors as soon as possible to assess how these changes could impact you personally if they are passed.

Sincerely,

Lynn Dwyer, MD
President
Dear NAME:

I am a physician in Newfoundland and Labrador and a member of the Newfoundland and Labrador Medical Association (NLMA). I am writing to express my grave concerns with respect to the federal Department of Finance’s proposed tax changes that will impact all small corporations in Canada.

In Newfoundland and Labrador, there are 573 registered Professional Medical Corporations, representing approximately 626 physicians or 43% of practicing doctors in the province. The right to allow medical professionals to incorporate in Newfoundland and Labrador was established by the provincial government in coordination with physicians. The province enabled physicians to incorporate because the potential tax management opportunities assisted with physician compensation and retirement planning. The proposed federal tax changes effectively undermine these established arrangements.

I operate as a self-employed professional. As such, I manage overhead costs, including rent, utilities, operating expenses and staff salaries. Within the existing rules, I am able to invest in my medical practice, expand my office, hire more staff, and purchase more equipment. Unlike a salaried employee, I do not benefit from health benefit plans, pension plans or other benefits afforded to salaried employees. Furthermore, unlike other small businesses, physicians have constraints on the prices they can charge and have no opportunity to pass on higher costs to customers. The tax changes will jeopardize the investments I have made in my practice, the staff I employ, and ultimately, my ability to retire.

It is critical for the Federal Government to comprehend how these proposed changes will affect doctors in Newfoundland and Labrador and, indeed, throughout Canada. I strongly urge you to respond to the grave concerns being advanced by Canada’s doctors and to reject the proposed tax changes.

Sincerely,

[NAME]
[TITLE]

cc

Dr. Lynn Dwyer, NLMA President, president@nlma.nl.ca
Newfoundland and Labrador Members of Parliament

For constituency office contact information and a map of the region represented by each MP, click the region link below.

- Nick Whelan, Nick.Whalen@parl.gc.ca - St. John’s East
- Seamus O’Regan, Seamus.OREgan@parl.gc.ca - St. John's South — Mount Pearl
- Ken McDonald, Ken.McDonald@parl.gc.ca - Avalon
- Judy Foote, judy.foote@parl.gc.ca - Bonavista — Burin — Trinity
- Scott Simms, scott.simms@parl.gc.ca - Coast of Bays — Central — Notre Dame
- Gudie Hutchings, Gudie.Hutchings@parl.gc.ca - Long Range Mountains
- Yvonne Jones, Yvonne.Jones@parl.gc.ca - Labrador