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WEALTH PLANNING FOR HEALTH-CARE PROFESSIONALS – PART 1: THE EARLY YEARS

Whether you are a new graduate, working as an associate, running your own practice or approaching retirement, tax, financial and retirement planning will always play a key part 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.

The content in this article is for information purposes only and does not constitute tax or legal advice. It is imperative that you obtain professional advice from qualified tax and legal advisors before acting on any of the information in this article. This will ensure that your own circumstances are properly considered and that action is taken based on the most current legislation.

This four-part series takes you through some of the key planning issues you should consider at various stages of your professional career.

Part 1: The Early Years

Part 2: Starting Out on Your Own

Part 3: The Peak Earning Years

Part 4: Preparing for Retirement

The first in a four-part series, this article addresses the relevant issues you may face when first starting out in the medical or dental field.



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An associate's status could be that of an employee or of an 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.

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. However, given the large amount of student debt following graduation, the risks associated with starting your own practice from scratch, and the capital required to purchase an existing practice, the majority of graduates choose to become associates.

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 of an 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. Most physicians working in private clinics or hospitals and most dentists working in private practice, however, are considered independent contractors or self-employed individuals. They engage in a fee-for-service arrangement and they generally receive a certain percentage of the billings or collections. Physicians

receive a percentage of the bills submitted to the publicly funded provincial health-care plan while dentists usually receive a percentage of collections from patients or the patients' insurer.

The question of whether an associate 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 associate as an employee or independent contractor determines which laws govern and protect the associate's relationship with the business. For example, employees are protected by common law or the Civil Code of Quebec and provincial employment legislation 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 cheque and 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	Fixed negotiated salary.	Limited ability to earn more money (i.e., bonuses).
	Qualifies for EI.	Must pay for EI premiums.
	50% of CPP/QPP premiums paid by employer.	Very few expenses are tax-deductible.
	Participation in employee benefits (i.e., paid vacation time, extended health benefits, pension plans).	Less control over hours of work and working conditions.
	Severance pay if terminated.	May be restricted to working for one employer.
Independent Contractor	Income is determined by volume of procedures and services performed.	No fixed or minimum income.
	Optional EI premiums.	No severance pay generally if contract is terminated.
	May be able to deduct business-related expenses.	Must pay employee and employer portions of CPP/QPP and EI (if opting for EI coverage).
	More freedom to choose own working hours and can work for more than one client.	No employee benefits.



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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 does not 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). The professional's work is not integral to the business but is an accessory to the business.
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.

The number one priority for most newly licensed physicians and dentists with bank loans or LOC is to pay off their student debt. This makes good economic sense as interest on personal non-deductible debt can be very costly.

This is not an exhaustive list of factors and there is no set formula in their application. The relative weight of each factor will depend on the particular facts and circumstances of the case. It is 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 to provide you with certainty about the status of the relationship into which you have entered. To request a ruling, use Form CPT1, Request for a Ruling as the Status of a Worker under the Canada Pension Plan and/or the Employment Insurance Act, available at <http://www.cra-arc.gc.ca/E/pbg/tf/cpt1/README.html>. For Quebec residents, a ruling can be obtained from Revenu Québec for purposes of the QPP and the parental insurance by completing Form RR-65-V, Application for Determination of Status as an Employee or a Self-Employed Person, available at <http://www.revenuquebec.ca/en/sepf/formulaires/rr/rr-65.aspx>.

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

MANAGING YOUR FINANCES

STUDENT DEBT

Only interest payments on loans negotiated and still existing with either the Canada Student Loans Program or a Provincial/Territorial Loans Program are eligible for a non-refundable tax credit. 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, the number one priority for most newly licensed physicians and dentists with bank loans or LOC is to pay off their student debt. This makes good economic sense as interest on personal non-deductible debt can be very costly.

Consider refinancing your debt if your current LOC is not offering you competitive rates. Some LOCs that are tailored towards professionals will allow you to defer the payment of the principal of the loan until 12 months after completion of your residency/internship. These LOCs are typically offered at a rate reserved for some of the institution's best clients meaning you would be receiving the best rate possible.

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. This way you can pay off your debt faster or avoid increasing your debt load and maybe even start saving or creating 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 RBC advisor can provide you with tailored financial solutions to help meet most of your needs as you are starting out. Whether it's helping you finance your home, manage your student loans or save for the future or near future, your RBC advisor can assist you with banking, credit and other financial information to help you meet your financial goals.

FINANCIAL AND 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 is recommended



A Will is a legal document that can help ensure that your assets pass according to your wishes after your death.

that you have at least three months worth of income in an accessible form in case of emergencies. A Tax-Free Savings Account (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.

You should also have adequate insurance to meet your needs. 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 to you. Critical illness insurance is another form of insurance that you may wish to consider purchasing when planning for unexpected events. This type of insurance provides a lump sum payment in the event that you are faced with certain listed types of illnesses, such as cancer, stroke or a heart attack. Disability and critical illness insurance may be provided by your employer as part of a benefit plan. You should ensure that the amount of coverage provided is sufficient for your particular situation. If the amount is insufficient, or if you are an independent contractor, you will have to obtain coverage personally.

Whether or not you have someone financially dependent on you will determine the level of life insurance coverage you need. Ask yourself the following question: "Am I confident that if I die or become disabled, my family or I have adequate assets and income to maintain our standard of living?" If the answer is "No" or "I don't know," then speak to your insurance advisor about getting a personal insurance analysis to determine if

you are underinsured, and if so, by how much. Give yourself and your family the peace of mind by taking immediate action today to secure your family's financial future in the event of an unforeseen occurrence.


ESTATE PLANNING

Estate planning involves the transfer of your assets when you die, as well as a variety of other personal matters. It is 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 that 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 and territories 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.

Give your family and yourself peace of



mind by booking an appointment with a legal advisor who specializes in Will and estate planning to get a thorough and up-to-date Will and POAs. This can help to avoid unnecessary stress and expense at what can be a difficult time and ensure that your wishes are carried out.

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

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