Canadian
HealthcareNetwork.ca

Personal pension plans: a way to blunt the blow likely about to fall on small businesses

Written by Jean-Pierre A. Laporte on September 15, 2017 for CanadianHealthcareNetwork.ca

---

Jean-Pierre A.
Laporte

The Canadian Medical Association and many small business groups have recently voiced the collective displeasure of professionals who are suddenly faced with proposed fiscal measures that are presented as “leveling the playing field” between the tax paid by regular employees on their salaries, and the taxes (corporate and personal) paid by doctors operating through medical professional corporations (“MPCs”).

As of the date of this article, federal government officials have not been convinced by these lobbying efforts and propose to close off the consultation period on October 2nd as scheduled.

As a quick reminder, the Morneau tax measures are three-fold:

1. an increase in the taxation of dividends paid to younger family members and spouses who do not play an active role in the operation of the MPC;
2. a dramatic increase the taxation of passive investments made by MPCs with after-tax dollars kept in the corporation as retained earnings and

3. measures to tax transaction designed to to convert MPC income into capital gains for its shareholders.

The end result in virtually all cases? Higher taxation for doctors and their families.

While opposition to these draconian proposals has been sustained and vocal, few stakeholders have yet to propose constructive solutions to blunt or even completely deflect the blow about to fall on MPCs and the medical doctors who work for them.

There is however one government-approved, tax-efficient solution that has been available for at least 5 years to MPCs: the Personal Pension Plan or PPP. These are offered by the firm I'm with—INTEGRIS Pension Management Corp. a pension consulting firm headquartered in Toronto—and other financial institutions also offer PPPs to doctors and other professionals: RBC Dominion Securities, Industrial Alliance, Scotia Wealth, Richardson GMP Ltd, etc.

The PPP is a registered pension plan, governed by the same laws as the Healthcare of Ontario Pension Plan ("HOOPP") and other generous tax-assisted retirement plans. It offers 7 additional tax deductions to MPCs that doctors who save through their corporation or via RRSPs cannot access. These tax deductions include: (a) past service purchases (b) special payments (c) terminal funding (d) RRSP double dips (e) investment management fee deductions (f) interest deductions and (g) higher annual contributions than RRSP limits. Taken together, a doctor utilizing a PPP can easily tax-shelter hundreds of thousands of additional dollars from corporate taxation while the plan is in effect as a result of the more generous tax treatment offered to registered pension plans by the Income Tax Act (Canada).

The only legal stipulation to benefit from a PPP is that the doctor (and if family members collect a salary from the MPC for work done, them as well) is receiving T4 income from the MPC since dividend income is not 'pensionable'. A doctor need not even offer membership in the PPP to rank-and-file employees, and can be restrict access to one or a few key employees (usually family members).

Thus, a 55 year old doctor who incorporated the MPC in 2007 and took a modest $80,000 salary/bonus (the rest being dividends) since, would be able to claim the following corporate deductions – assuming invested assets grow at 5% per annum:

(a) past service $82,813
(b) special payments $24,320
(c) terminal funding (age 60) $254,851
(d) deductions for payment of fees (1% fee assumed) $44,400
(e) extra contributions in excess of RRSP limits over 10 years: $197,373

In summary, this particular MPC can exceed the tax savings that RRSPs offer, by an additional $348,906 in corporate deductions. Another additional tax deduction is also available if "early retirement" is selected and a terminal funding payment (to pay for an unreduced early retirement pension to become available) is made by the corporation.

The doctor in the above example could (for example) retire at age 60 (simply by shifting from salary to dividend compensation but continue practicing) and receive a $55,029 a year pension thus triggering a supplemental corporate tax deduction of $254,851 (terminal funding). Higher pensions would be payable in proportion to the salary received by the doctor from the MPC.

One should note that the $55,029 pension in this example is also eligible for "pension income splitting" with a spouse as early as age 55 (RRIF income can only be income-split at age 65) and the doctor and spouse can each claim a $2,000 per person pension income credit. Thus taxable income on the pension of the doctor in such a case would be on $25,514.

While accountants appreciate the tax features of PPPs, these pension plans offer many other features such as inter-generational wealth transfer on a tax-deferred basis, superior creditor protection and the ability to invest alongside the most sophisticated pension plans in the country in asset classes that are not RRSP-eligible. The task of investing the assets of the PPP rests with the doctor's trusted financial advisor, not with INTEGRIS.

Thus, while it is become apparent that treating one's MPC as if it were a quasi-pension plan will become even more tax-inefficient under Canadian fiscal laws if the Morneau measures are adopted, doctors operating through an MPC still have the ability to deploy a PPP as a shield to absorb the tax hikes and convert these into a substantially larger retirement nest egg at the same time. Light is at the end of the tunnel.

To learn more about PPPs, visit www.thepersonalpensionplan.com

Jean-Pierre A. Laporte is the CEO of INTEGRIS Pension Management Corp. and he can be reached at jp.laporte@integris-mgt.com.