

EXPANDING OUR SERVICES IN THE OTTAWA AREA

Over the past 15 years, TMFD Financial has strived to develop valuable partnerships intent on keeping our clients' financial interests front and centre, and we continue to do so. I'm very pleased to announce our merger with Robert L. Snowden to form **TMFD Ottawa Professional Corporation, Chartered Professional Accountants**.

In private practice since 1979, Bob Snowden has not only served a diverse clientele over the years, but has been the go-to guy in the Ottawa area. We know first hand that a great

number of Ottawa dental professionals have very confidently put their trust in his high quality level of professionalism and expertise.

Bob and his team have a keen sense of defining and assessing client goals and place high value on the entrepreneurial spirit. This is why we are confident too that our new partnership will excel at offering a premium roster of services focused on tax* and accounting*, comprehensive financial planning and practice management consulting services.



HOWARD J ATKINSON CFA, CIMA® and IC.D.D is the President of TMFD Financial, focusing on business development and corporate strategy. Prior to joining TMFD Financial he was a founder and president of Horizons ETFs Management Inc. and over his three decades in financial services has held executive positions with Mackenzie Financial Corporation, CI Funds and Barclays Global Investors Canada Ltd. He is the past founding chair of the Canadian ETF Association and a past president of CFA Society Toronto. He is the author of four books including *The New Investment Frontier III: A Guide to Exchange Traded Funds for Canadians*, (Insomniac Press, 2005).

IN THIS ISSUE

Our new partner also contributes to our fall newsletter as he outlines a contentious issue presented by the federal government this past summer. Finance Minister Bill Morneau is proposing a review of three taxation areas that would seriously affect professional corporations and investment companies. We want our clients to rest assured that we at TMFD Financial will be responding to Finance suggesting that these proposals be scrapped.

Further in, Dale Tucci explains how to corral the power and value of dashboards in your dental practice management software. Nothing provides real-time feedback, speed and accuracy of information in the office place like this software enhancement and our consultants are uniquely qualified to accurately and readily assess your client base data.

Fall is traditionally identified as a season of change – perhaps you're currently considering new frontiers, decisions or concerns. Please visit our website at TMFD.ca or contact our advisors anytime to discuss your thoughts at 1-(833) 507-6863 or info@tmfd.ca

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MORNEAU'S TAX* FAIRNESS PLAN?

One hundred years ago in July 1917, Finance Minister Sir Thomas White shocked the nation by tabling a resolution in parliament calling for temporary income taxes, at very low rates, as a “war measure”. On July 18, 2017, one hundred years later, the current Finance Minister Bill Morneau dropped another tax-related bomb; this one directed at all Canadian controlled private corporations.

It's been labelled as a tax fairness package, comparing employment income to owner-managed business and professional corporations, indicating that the use of corporations is a tax loophole and a tax shelter for the rich. Throughout the sixty-three pages of proposals there are numerous references to the comparison of owner-managed business and professional corporations with middle class employment income. The proposed changes are premised on the notion that the use of private corporations provides “advantages to the select few” and that this is unfair to middle-class Canadians. However, in this country there is nothing to prevent any employee from starting their own business and taking all the risks that owner-managed and professional corporations face daily.

The proposals consist of putting a stop to income sprinkling amongst family members, a significant increase in tax rates for investment income earned in a corporation and distributed by way of dividends to the shareholder, and finally double taxation on your estate when you die. Calculations show a 72% tax rate on dollars earned in a corporation, invested and accumulated for your retirement. Essentially, upon your death, the payment of 72% of your corporate assets amounts to confiscation of your estate to pay ongoing Federal deficits. If these proposals are approved in Parliament no one will ever want to set up a small business corporation in Canada. Goodbye entrepreneurs,

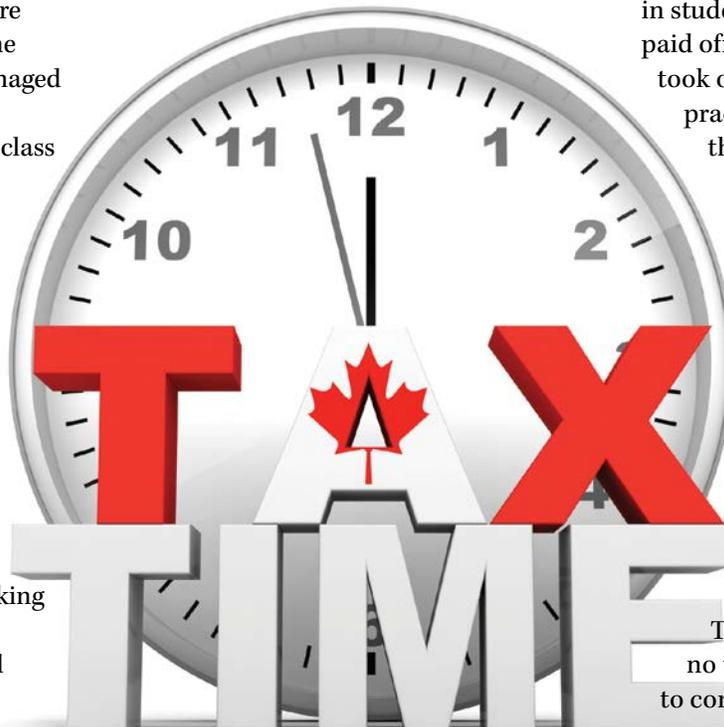
innovators and job creators. Let's take a closer look at the proposals:

DIVIDEND SPRINKLING

Finance clearly dislikes the payment of dividends to family members. Their proposal is to tax non-active shareholders of the corporation at top marginal tax rates allowing dividend treatment for only those who can prove they are totally engaged in the business.

Generally in my practice, dividend sprinkling is associated with getting your 18-year-old children through a four-year university program at \$20,000 per child per year. I'll compare the cases of Dr. Joe, and Jim and Jane.

Dr. Joe is a dentist employing five people in his practice. He is 45 and has just paid off his \$300,000 in student loans and has partially paid off the \$1,000,000 loan he took out to buy his dental practice so he could provide these valuable services to the public. He has two children starting university with anticipated dividends of \$20,000 per year per child. Under the current tax regime his tax advantage over the four years through dividend sprinkling would be \$61,600 ($\$160,000 \times 38.5\% = \$61,600$) or \$15,400 per year. Under the proposed Tax Fairness Plan he realizes no tax savings, therefore, has to come up with another \$15,400



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per year. So he anticipates working some evenings and weekends to generate another \$82,795 in fees per year which after he pays 60% overhead and the 53.5% personal tax leaves him with the \$15,400 net each year after tax.

Now let's look at Jim and Jane, a middle class family with two younger children who are anticipating saving for the children's future education. They get the new non-taxable Canada Child Benefit each year for say five years:

5 years x 2 children x \$5,400	\$54,000
Their children will also qualify for OSAP grants of \$7,500 per person, per year for four years, again non-taxable	\$60,000
Total non-taxable funds received	\$114,000

All the above money is coming from the one and only taxpayer. Where is the fairness in this? Dr. Joe's taxes are increased by \$61,600 so he has to open up on evenings and weekends to finance his two children's university costs while Jim and Jane do nothing more and the taxpayers finance \$114,000 of their children's university costs.

Fairness requires a look at the income transfers. Dividends are income from property and not related to employment income. The Neuman case which took years to go through the courts, resulting in a Supreme Court of Canada decision that varying amounts of dividends could be paid on different



classes of shares, is the current law of the land.

Finance also intends to charge top marginal tax rates on capital gains on small business shares where the vendor is not active in the business. Once again, this compares the ownership of property to employment, which is new territory for everyone including the Courts.

HOLDING PASSIVE INVESTMENTS INSIDE A PRIVATE CORPORATION

The tax fairness paper devotes twenty-two pages to examining the tax shelter impact of using business income taxed at 15% rate for investment purposes. It makes a number of proposals including a further 35% non-refundable tax on investment income and taxing capital gains at 100% with no ability to pay out a tax-free capital dividend. None of this makes any sense.

The bureaucrats also don't realize that the accounting and legal fees on investment companies for things like eligible and non-eligible dividends, capital dividend elections, preparing T5's and the more complicated corporate tax return, eat away at investment income. If we assume that the individual pays \$100 more per year to get his tax return done because of the investments while the corporation pays \$1,200 more per year because of complexity, then we are at a level

playing field. Based on the example on page 46 of the Tax Fairness Plan the numbers would look like Table 1 over the ten-year period.

As you can see, there is a \$363 advantage to the corporation under the existing system while the proposed amendments reduce the net after tax net worth of the corporation by \$2,434. How does fairness factor into this? In addition, the compliance costs with the proposed system to be borne by the corporations are undeterminable but mind-boggling!

THE FINAL STRAW - TAXES ON THE DEATH OF THE SHAREHOLDER

When the shareholder of a corporation dies (absent the spousal rollover) that taxpayer is deemed to have disposed of his shares of his private corporation at fair market value resulting in capital gains on the final personal tax return. To come up with the money to pay the tax, the cash within the corporation needs to be withdrawn. The current tax system allows for a tax-free withdrawal of these funds using a strategy referred to as the "pipeline".

The proposed amendments disallow the pipeline and cash needed to pay the final tax bill will be taxed as a dividend. So now we may have double taxation expressed as follows:

Tax on the capital gain	26.76%
Tax on the dividend to remove the cash and assets from the corporation	45.30%
Total Tax	72.06%

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So you have paid your fair share of tax all the way along and now CRA wants to confiscate 72.06% of your estate. Does anyone really think this is fair?

WHAT CAN YOU DO?

Talk to your advisors and:

1. Pay out as many dividends as possible to your family members prior to December 31, 2017.
2. Consider the use of individual pension plans, corporate owned life insurance, and retirement compensation arrangements.

At TMFD Financial, we consider these proposals to be ill-conceived

with crippling consequences to owner-managed business and professional corporations. We completely disagree with the message the Department of Finance is delivering to the “middle class public” – that the

use of private corporations is a tax loophole for the very wealthy.

As always, we understand all of your concerns. Please contact us if you'd like to discuss how these proposed changes could affect you.



ROBERT L. SNOWDON, Chartered Accountant, CPA

Bob is based out of the TMFD Financial Ottawa office. Bob obtained his Bachelor of Commerce degree in 1973 from Queens University and received his designation as a Chartered Accountant in 1977. He has been in private practice since 1979, consistently providing a high quality level of professional services to a diverse client base. In addition to being a member of the Institute of Chartered Accountants, Bob is a member of the Canadian Tax Foundation, which provides up to date tax planning techniques and information through its conferences and publications.

FAIRNESS PROPOSAL – PASSIVE INCOME – Table 1

Source Capital	Individual	Corporation	
		Current System	Proposed System
Income	\$100,000	\$100,000	\$100,000
Federal personal or corporate tax	(\$33,000)	(\$10,500)	(\$10,500)
Provincial personal or corporate tax	(\$17,367)	(\$3,900)	(\$3,900)
Starting portfolio	\$49,633	\$85,600	\$85,600
Portfolio value after 10 years	\$57,539	\$99,235	\$99,235
Less: Accounting and legal costs	(\$1,000)	(\$12,000)	(\$12,000)
Tax adjustment		\$6,048	\$6,048
Refund of pre-paid tax (RDTOH)		\$4,824	
Distribution of taxable dividends		\$98,107	\$93,283
Personal income tax on dividends		(\$41,205)	(\$39,178)
New Worth	\$56,539	\$56,902	\$54,105

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DENTAL DASHBOARDS – HYPE OR HELP?

As a dental professional or practice owner, you have likely been contacted by your dental practice management software provider about the development or implementation of a dashboard. Does this leave you asking, “*Exactly what data does the dashboard collect and how can this information improve my practice?*”

A dental dashboard extracts data directly from the software around such things as: active patient count, number of patients due in a date range and not scheduled for hygiene, provider downtime, revenue by dentists and hygienists, accounts receivables and much more. As practice management consultants we regularly work with clients developing and implementing practice monitors to assess performance. We’re fully convinced that when it comes to helping dentists and team members improve their practices, this software tool is invaluable. If you currently do not gather or assess practice performance on a regular basis, consider the dashboard as your gateway to real time measurement.

LET’S BEGIN...

The best route to take before becoming a user is to determine, along with your team members and advisors, the specific data that will be collected on a monthly basis. The dentist who will ultimately review and use the data should define the amount of

information. Remember that the most significant value of collecting practice data is not the volume of information compiled, but rather the selective data gathered, interpreted and used. Simply collecting and displaying data in an interesting format has little value.

Once you have this criteria established, communicate your preferences to the dashboard provider along with your willingness to expand the information at a later date. Next, determine who will have access to the dashboard and set aside time to evaluate and discuss the results.

the areas of data mining that illustrate if performance is at, above, or below industry norms for your type of practice. For absolute accuracy, you can connect with us to review those specific areas in your practice. We have a unique vantage point at TMFD Financial because we assess practice financial performance on a regular basis, utilize actual client data and calculate industry benchmarks.

Our practice consulting team members also work directly with clients to identify KPI’s (key performance indicators) and train business owners, managers and team members to collect and

If you currently do not gather or assess practice performance on a regular basis, consider the dashboard as your gateway to real time measurement.

The final step in this process is interpreting the data and creating an improvement action plan. Who and how will the data be evaluated and how often? We suggest assessing the information monthly and examining practice trends over time. Trending information is an asset to anyone managing a dental practice.

TOO MUCH INFORMATION?

To avoid the “hype” factor of being wowed by the sheer volume of dashboard information, focus on

interpret data directly from the dental software. As an example, one area may be identified to improve over the next month(s) with corresponding actions and resources. Once outcomes show consistent improvement over a three-month period, then another aspect of the practice may be selected and marked for improvement.

If your dental practice already collects and reviews practice performance metrics and KPI’s, you probably find you’re able to



utilize the dashboard more readily, especially if the dashboard software replicates the information being gathered. However, some of our clients have shared feedback about feeling overwhelmed by the amount of information being collected. In such cases, we recommend scaling back the data to focus on specific areas of practice management to improve, and then develop an action plan.

THE BENEFITS CONTINUE

For users of QBO (Quick Books Online), a dental dashboard that features this information, allowing clients to view practice and financial performance, is a significant advantage. The breadth and depth of information expands the dentist's knowledge and – Knowledge is Power!

Whether you have a desire to improve your practice performance,

or you're comfortable with your current results, performance assessment is a necessity. Dashboards provide actual, real-time feedback for owners, their managers and team members, enabling them to make decisions based on factual

information. And it's hard to argue with this fact – the speed and accuracy of the information provided by the dashboard is a real timesaver.

At TMFD Financial we have engaged in thorough research related to dashboard efficiency and value, and will continue to keep our clients updated about new findings. As always, we welcome your emails or calls to discuss the vast benefits of this powerful tool and how it can work for you.



DALE TUCCI

Dale is President of Consulting at TMFD Financial. She and her team offer a wide variety of custom practice management services featuring transition planning, business coaching, associate recruiting, marketing and human resources. Dale has a 25 year record of success, trusted by thousands of clients for providing hands-on solutions.

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TMFD **Financial**

Helping dentists
build wealth

Tax* and Financial Planning
Incorporation and Practice Transition
Practice Management
Payroll and Accounting*
Insurance Planning
Retirement Planning
Wealth Management
Estate Planning

For over 30 years TMFD has been providing dentists and dental specialists with complete tax* and financial solutions. We work with new graduates, associates, established dentists and dentists transitioning or in retirement. We are proud to be leaders in the industry, but our client's satisfaction is our truest measure of success. To all of our clients,
“THANK YOU FOR PLACING YOUR TRUST IN US.”

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Being a sceptic, it took me a while to place my trust and confidence with someone when it came to my financial affairs. As Dentists, we work very hard for our money and have very little time to invest it properly, and seek the proper advice. I retired from Dentistry at the age of 58 and have been a client of TMFD for over ten years. As I look back on how this was possible, it is easy to see that aside from hard work and running an efficient and successful practice, it was the team at TMFD that helped immensely in achieving this. The formation of the correct corporate structure, tax planning and wealth management strategies, legal advice and banking needs, the proper insurance set up, all under one roof was the key to this success. Mike and his team are knowledgeable to the needs of Dentists, are efficient, professional and are a pleasure to deal with. I have enjoyed Dentistry and continue to serve



Dr. Kerr Banduk, D.D.S. (Waterloo)

on the ODA (Ontario Dental Association) for the betterment of our Profession. I feel a great joy in recommending the TMFD team to you. TRUST is earned and they have earned mine.

Mike Lakhani and his team listen and act on my individual needs rather than using a “one size fits all” method. They take a comprehensive approach to financial planning that includes tax planning, education, investment planning, insurance needs, estate planning and structuring, and debt reduction. Prior to working with the Lakhani team, I had to rely on multiple specialists and it consumed a lot of my time. Now, Mike and his team serve as a kind of CFO for my business and personal finances. Their integrated service frees up my time to do the things I really enjoy, such as practicing dentistry and spending time with my family.



Dr. Sara Syed, B.Sc. (Hons), D.M.D. (Ottawa)

I spent many years carefully investigating who I would work with as my financial planner. I decided to commit to



Dr. Murray Arlin, D.D.S., dip. Perio., F.R.C.D.(C) (Etobicoke)

the Lakhani team and can very strongly recommend them. The team is knowledgeable and competent, as well as being down to earth and friendly. They provide significant benefits to my financial and legal affairs.

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