

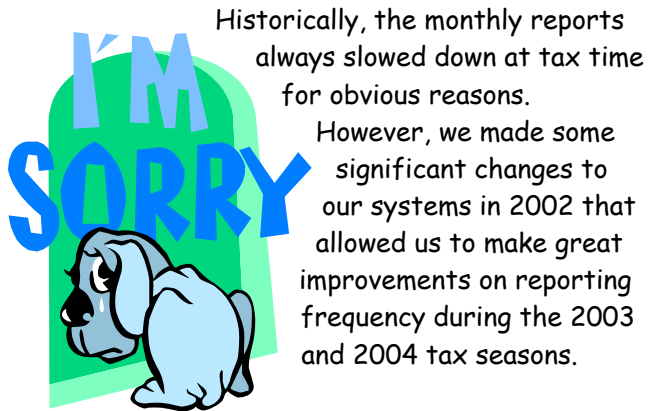


BUSINESS MANAGEMENT
QUARTERLY

2005-Volume 2
(DENTAL EDITION)

OUR APOLOGIES

No doubt, if you receive monthly management reports from us, you had noticed a slow down in the frequency of our reports. Please accept our apologies.



Historically, the monthly reports always slowed down at tax time for obvious reasons.

However, we made some significant changes to our systems in 2002 that allowed us to make great improvements on reporting frequency during the 2003 and 2004 tax seasons.

However, in 2005 we experience a good news/bad news scenario. The good news is we grew significantly during tax season. The bad news is we grew significantly during tax season. It was this growth that taxed (pun intended) our productivity.

We have taken steps to minimize the slow down for the 2006 tax season. Again, please accept our apologies for the slow down.

PROFESSIONAL CORPORATION RENEWALS

Just a reminder for all those who are professionally incorporated. Your Certificate of Authorization must be renewed by the end of August.

POTENTIAL NEW DENTISTRY PROFESSIONAL CORPORATION RULES

The Ontario government has proposed family members will be able to hold shares of a dentistry professional corporation. If this legislation is passed, it is set to take affect January 1, 2006. This, of course, provides a unique income splitting opportunities.

However, family members do not simply receive shares for free. They must pay for said shares.

Therefore, it is imperative cash flow projections and tax plans are in place when developing and executing such corporate structure strategies.

We will watch with interest to see if this proposal will be accepted.

CORPORATE EXCESS CASH

More than half of our client base has now incorporated. (The other half hasn't due to timing restraints). In addition to those clients that have professionally incorporated, there are many more clients operating Technical Services Corporations.

As a result of careful budgeting and responsible cash flow management, many corporate clients are having to deal with a welcome problem. There are significant funds accumulating in their corporate bank accounts. The most important issue is what to do with corporate excess cash.

There are a host of options available, but we will address five of them:

1. Pay out dividends;
2. Pay down practice/business debt;
3. Acquire real estate;
4. Set up Individual Pension Plan;
5. Buy Universal Life Insurance.

Dividends

This option is the least tax effective option in comparison to the other four listed. However, if there is a need for the shareholder to use funds personally, then paying out dividends with excess corporate cash makes sense.



The number one reason one could justify the pay out of dividends is if there is a need to pay down

personal debt. Because personal debt does not allow for interest to be tax deductible, it is in all of our best interest to pay down personal debt as quickly as possible, especially high interest debt such as credit cards.

Pay Down Practice/Business Debt

Once personal debt is paid off, then one can look to pay down practice/business debt. Most business debt is open in nature and can be paid down at any time. The only reason one would not pay down business debt is if the interest rate on such debt was so low, it would make sense to take the excess money and invest it with the goal of realizing returns well in excess of the interest being paid on the debt.

Acquire Real Estate

If you are renting or in a position to expand, acquiring real estate to relocate your practice has many advantages. Generally, real estate appreciates over time. Like an RRSP, as it appreciates the growth is not taxed.



When you are ready to transition out of your practice you can hang on to the real estate and earn rental revenue. Or, if you are more interested in severing the ties from the practice completely, the real estate will only add value to the transaction.

If you are paying rent, and are earning significant excess cash through the corporation, we strongly advise considering the acquisition of real estate. Other than the appreciation benefit, with real estate the occupancy costs can at least go towards building equity.

Individual Pension Plan (IPP)

If you are the type of person who values RRSP's, and therefore, the importance of retirement

planning, then setting up an IPP may be very attractive to you. The ideal candidate for an IPP is a business owner who is at least 40 years old and earns in excess of \$100,000 in T4 income.

The IPP allows the business owner to save more on an annual basis than does an RRSP. Further, the contributions are made by the corporation and are an expense to the corporation.



When you are ready to retire, then the IPP is collapsed and the proceeds of the plan are transferred to a locked-in retirement account or can be used to purchase an annuity.

Universal Life Insurance (UL)

UL is a form of permanent life insurance. Most UL policies are exempt policies, which means any contributions to the policy in excess of the cost of insurance would go into a tax-sheltered investment account. As the investments grow, there are no taxes to be paid on the growth.

Because life insurance premiums are paid with after tax dollars, having a corporation with a 19% tax rate pay for the premiums is an efficient use of funds if Risk Management is an important part of your overall estate or retirement plan.

When the insured person passes away, the death benefit, including the funds in the investment account, are paid to the corporation tax free. Once the corporation receives the proceeds they (less the adjusted cost base of the policy) can be paid out to the shareholders (or shareholder's estate) tax free through the capital dividend account.

Therefore, if you find yourself in a position in which your corporation is accumulating significant

excess funds, consider using the funds to pay out dividends, pay out business debt, acquire real estate, contribute to an individual pension plan or contribute to a Universal Life Policy.

Of course, before making any final decisions, please consult us or your personal financial advisors to ensure you are aware of all the opportunities and threats.

MORTGAGE INSURANCE

Lending institutions will often suggest or oblige a borrower to obtain insurance as a risk management tool to insure the loan can be paid off in the event of the borrower's untimely passing.

However, please be aware, it is almost always better to obtain insurance from a third party rather than the bank itself. There are two reasons for this.



said party

First, a bank's insurance rates are normally much higher than the rates you can secure with your insurance broker or agent. The banks may suggest to you the insurance is coming from a large insurance company. The problem is the bank gets "their cut" and the price is inflated. Therefore, shop around for the best value.

Secondly, if there is an unfortunate passing, the banks decide what happens to the death benefit proceeds. Whereas, if you obtain the insurance from a third party, you may have to assign the death benefit proceeds to the bank, but you can modify the assignment in conjunction with the decreasing loan amount.

If you are in a position in which you are paying the bank an insurance premium for a personal loan or mortgage or a business loan or mortgage, and would like to know whether you can get a better deal elsewhere, please contact me (Frank) or Norma Jean. We will have Carmen Fascia provide you with

a no hassle, no obligation quote so that you may determine whether your current payment is the best value for you.

EMPLOYER HEALTH TAX (EHT) AND PAYROLL SERVICES

Please note, if your payroll is greater than \$400,000 per year, you will most likely have to pay a EHT. If Business Affairs prepares your T4 summaries for you, then we will advise as to what your EHT payment should be.

However, if your practice uses a payroll service, in which one of the value added services they provide is T4 summaries, they may not be informing you if there is a need to remit EHT. Therefore, if you have a payroll in excess of \$400,000 and use a payroll service, please provide the payroll service with your EHT number. If you do not yet have an EHT number, and you have a payroll of more than \$400,000, then you will need to contact Ontario's Ministry of Finance at 1-800-263-7965 to obtain the number.

Once you provide the number to your payroll service, they will most likely keep track of what your EHT totals are. In some cases, they may even make remittances on your behalf. However, by the end of the year, someone from the practice, or Business Affairs, will have to reconcile what the payroll service has remitted to ensure the proper amount had been paid to the government. Further, normally, payroll services will not prepare and file the EHT return on your behalf. Again, someone from your practice, or Business Affairs, will have to prepare and file the return.

If you are unsure of your EHT status, please contact me (Frank) or Norma Jean and we will help determine your status.

TAX TIPS AND TRAPS

We have included a Tax, Tips and Traps newsletter for your reading enjoyment.