

Frequently Asked Questions for members

Question: What tax changes have been proposed by the federal government and how will they affect physicians?

On July 18, the federal Finance Minister, the Hon. Bill Morneau, released a policy paper entitled [Tax Planning Using Private Corporations](#) detailing several legislative changes and a 75-day public consultation period, ending Oct. 2, 2017.

Question: What is being proposed?

The policy paper proposes changes to three areas of the Income Tax Act, including:

1. Splitting income using private corporations

The consultation document proposes legislation to extend rules to dividend income earned by adult family members subject to a new “reasonableness” test. This test would consider the extent to which a family member contributed labour or capital to the corporation. Dividend payments to adult family members that do not meet the reasonableness test would be subject to the highest marginal tax rates and the loss of some personal tax credits. This proposed legislation would be effective for 2018 and subsequent years.

2. Holding a passive investment portfolio inside a private corporation

The government is exploring a new concept of taxation on passive income earned within private corporations that would effectively eliminate the deferral advantage. The policy paper does not provide timing as to when this change would take effect.

3. Converting a private corporation’s regular income into capital gains

The consultation document includes legislation to amend a provision of the Income Tax Act that will eliminate certain tax strategies in use today that convert what would be dividend income into capital gains income. This change would be effective for transactions entered into on or after July 18, 2017.

MD Financial Management has prepared a [detailed analysis](#) of the proposed tax changes and provided a preliminary analysis of the potential impact on their clients.

Question: What is the CMA doing about this issue?

Technical response:

- Retained legal and tax experts, including MD Financial Management, to prepare a comprehensive response to the federal government;
- Collaborating with the provincial and territorial medical associations (PTMAs) to capture provincial and territorial implications, which will be included in the brief to government.

Advocacy:

- Forming an alliance with other affected groups to ensure comprehensive and effective advocacy on the issue;
- Applying effective strategies to influence government;
- Supporting members in their individual advocacy efforts (e.g. outreach to their MPs).

PTMAs & affiliates:

- Working closely with all medical associations to coordinate messaging, amplify the effort, and ensure a comprehensive submission.

Member communications

- Providing regular updates to the full membership, responding to email and telephone inquiries; and capturing member feedback, testimonials, and insights.

Public communications

- Using social and traditional media to educate and inform the public of the serious impact of the proposed changes.

Question: Should physicians reach out to their MPs or MPPs on this issue? Should physicians sign online petitions?

It is important that physicians share their perspectives with the Department of Finance. Submissions can be sent to: fin.consultation.fin@canada.ca. It is also important to share your input with your MP and the [CMA](#).

Question: What are the chances that the government will decide not to implement these changes?

The government is very motivated to implement some changes, but the extent is unknown. The CMA is developing a detailed and compelling submission to the Department of Finance that will highlight the serious negative impacts of such changes.

Question: What other groups besides physicians are affected?

The proposed changes would affect all independent professionals and others who have set up their practices as private corporations. This includes some dentists, restaurateurs, farmers, lawyers and others.

Question: I live in a province that already disallows physician incorporation. Why should I care about this?

It is true that in some jurisdictions, physician incorporation is not available. However, in other provinces the ability to incorporate physician practices was an element negotiated in good faith between physicians and the provincial government. The proposed federal tax changes would undermine that fairly negotiated and agreed upon element.

Question: I'm very nervous as to how these proposed changes will affect my financial well-being. What should I do?

Contact your financial advisor to discuss the potential implications of these proposed changes.