



Manfred Purtzki, CA

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NEWSLETTER

## Why You Should Sell Now

If you have been toying with the notion of selling your practice in the next few years, consider accelerating that decision and putting your practice on the market now. Here is the reasoning behind this thinking.

- 1. It's A Seller's Market.** Selling a dental practice today is reminiscent of the red-hot housing market a few years ago, when eager buyers lined up waving their cheque books, with the successful purchaser paying more than asking price. Nowadays, many dentists are postponing their retirement in an attempt to recoup their recent portfolio losses, accentuating the scarcity of good practice opportunities. With demand outstripping the available supply, the prices being paid for practices have never been higher. If you wait a couple of years, you will likely not get the value from your practice you would be getting now.
- 2. Financing Is Easy... For Now.** In spite of rumours to the contrary, banks are still keen to fully finance the purchase of a dental practice, and at reasonable rates. However, banks are starting to tighten the credit for their nonprofessional clientele, and it will just be a matter of time before they will decline to fully finance the practice goodwill, or impose unreasonable lending restrictions. Like many of your colleagues in the USA, if you want the deal you will be forced into financing a portion of the purchase price.

- 3. Retirement Is Beckoning.** Many dentists have grown weary of the daily routine of managing the practice, dealing with staffing issues, controlling overhead expenses, and meeting the increasing demands from their patients. What an opportune time, to sell the practice, and continue working as an associate on a flexible schedule, without worrying about practice management.
- 4. Cash is King.** If you can cash out now, you have unprecedented opportunities to grab the money and run to your broker to take advantage of super deals in the stock-and real estate market.

If you are contemplating all the available transition options, feel free contact us for a complimentary consultation. We will flesh out the appropriate transition strategies for you and assist you in maximize the value of your practice.

### Say "I Do" To A PreNup

According to the "experts" first marriages have about 50% chance of ending in divorce. The stats get worse the more times you get married; 72% of second marriages and 85% of third marriages end in divorce. To provide clarity with respect to future asset distributions, especially when children and other dependents from previous marriages are involved, it makes good sense to have a pre-nuptial agreement.

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### What we do best

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**Maximizing Wealth for Dentists**

# Look Good, Feel Good... and Write It All Off



Medical expenses can add up quickly. New glasses, contact lenses, Lasik surgery, a little Botox here and there. Throw in some braces for your kids, and before you know it, you have accumulated over \$5,000 worth of medical receipts. Sure, claiming medical expenses of \$5,000 on your personal tax return will give you a tax benefit of \$680; unfortunately, you will need to earn almost \$9,000 before income taxes to pay for these medical expenses. Simply using your company to pay these expenses will not change the outcome. The corporate payments will be considered taxable shareholder benefits, and you will still end up paying with after-tax dollars.

## **Your corporation can cover medical expenses in a number of ways.**

When you think of health insurance, the major medical plans provided by insurers such as Sunlife or Blue Cross immediately come to mind. These plans provide varying levels of coverage depending upon the amount of the premium you are willing to pay. The cost of such a plan can vary from year

to year and if the claims increase, so will your premiums.

There is a better solution. Implement a Private Health Services Plan ("PHSP"). The PHSP allows your corporation to deduct medical expenses for you and your employees without generating a taxable benefit. There are two types of PHSP's.

### **Administered PHSP**

The PHSP is often implemented with a third-party acting as an administrator in a cost-plus arrangement. Under this alternative, your company contracts with the plan administrator to reimburse health-related claims of the employees. Employees will submit a claim to the administrator who will in turn bill your company for the amount of the claim plus an administration fee, usually 10%.

### **Self Administered PHSP**

When you carry on your dental practice in a corporation, there is no requirement for you to utilize the services of a third-party administrator. The big advantage of the self-administered plan is that you save the administration fees.

### **Establishing a PHSP in your practice is a simple three-step process:**

1. A director's resolution should be prepared and signed to document the creation of the PHSP.
2. There should be a written employment agreement outlining

the parameters of the plan, including the amount of the benefit and the medical expenses that qualify for reimbursement.

3. Once the plan is created, the reimbursed benefits must be tracked in your accounting system. You will need to monitor the amount paid to the employee in the year in relation to their entitlement under the plan. After incurring the medical expense, the employee will simply submit receipts to your corporation for reimbursement.

As with all good things, there is a catch. CRA may determine that the payments from your company to you are a benefit resulting from the ownership of the corporation as opposed to a benefit resulting from employment. Where CRA determines that you receive the benefit in your capacity as a shareholder, the company will be denied the deduction and the amount of the benefit will be included in your income. The result is double taxation.

A good defense against being assessed a shareholder benefit is that your plan should be offered to all employees. The level of benefits under the plan should be commensurate with the employee's duties and expertise.

With the ever-increasing cost of health and dental expenses, a PHSP provides an excellent vehicle to reap substantial tax savings. If you are interested in setting up a PHSP, contact us for the complimentary "do-it-yourself kit".

# Our Top Ten Year-End Tax Strategies

The end of 2008 is in sight, and there is no better time than now to compile your yearly checklist of tax saving strategies, designed to reduce your income tax bill for 2008. My favourite top ten strategies are as follows.

## 1. Convert dividends to capital gains to use up capital losses

You can convert dividends received from your Dental Inc. to capital gains, thereby reducing your tax rate by about 10%, depending on the amount received. This strategy is the silver lining to the financial cloud that has been hanging over us lately since you can apply your stock market losses against the capital gains received from your corporation. This way, many of you will enjoy even bigger tax benefits this year than ever before! So, if for example, you have \$100,000 of capital losses, apply these losses to the \$100,000 of capital gains received from your corporation, and you will basically paying no tax on \$100,000 of shareholder's draws. If you have some losers in your portfolio you may want to consider sell these before the end of the year to realize the capital loss which can be applied against the current year capital gain or carried back three years.

## 2. Consider tax free gifts and social events

Generosity has many benefits. Your employees can receive two non-cash gifts per year on a tax-free basis for a special occasion such as Christmas, but the total cost of the gifts cannot exceed \$500 per year. Cash or gift certificates, which can be converted to cash, are considered a taxable benefit.

## 3. Donate securities prior to December 31, 2008

Rather donating cash to your favorite charitable organization during the holiday season, consider transferring stocks or mutual funds with unrealized gains. You do not pay tax on the gain, and you can claim the full fair market value of the investments as a charitable donation.

## 4. Pay salary/bonuses to spouse or children.

Consider paying a salary to your spouse and children before December 31, 2008. The salary should be reasonable in terms of what you would have paid to an unrelated party for the services rendered. Ideally, the salary should be supported by an employment agreement or timesheets.

## 5. Pay dividends to family members.

Maximize income splitting benefits by adding family members in a low tax bracket as shareholders in your Corporation, and allocating dividends to them. The beauty of paying dividends, rather than a salary, is that dividends

can be paid in any amount and do not have to meet any reasonableness tests.

## 6. Make expenditures before year-end

If you are planning any capital expenditures in the near future, consider purchasing dental assets prior to the end of the year. As long as they have been in use before the year-end, you are entitled to claim one half of the annual depreciation in the year of acquisition, and the full depreciation in the following year.

## 7. Utilize the Tax-Free Savings Account

Starting on January 1, 2009, the Tax-Free Savings Account ("TFSA"), will be one of the hottest tax shelters around. If you are 18 years older, you can deposit up to \$5,000 per year of after-tax dollars into a TFSA. The income earned is tax-free and you can withdraw the capital and accumulated income at any time, penalty-free. One of the biggest advantages in using the TFSA is that, unlike the RRSP, you don't need to have sufficient "earned income" to make the contribution. Also, consider paying a dividend to your low tax bracket family members who can then contribute the funds to their respective TFSA.

## 8. Defer capital gains

If you are one of those fortunate, but few, investors who are generating capital gains on their investments, you may want to consider delaying the sale until after December 31, 2008. You will report the gain in 2009 and defer the income tax until April of 2010.

## 9. Review your debt management

Take some time to analyze your debts. Speed up the repayment of your home mortgage by setting up a structure whereby corporate funds earmarked for mortgage repayment are channeled as dividends to family members in a low income tax bracket. Sell your personal investments to your corporation, which pays for them with a corporate loan. This allows you to create a tax deductible corporate debt, proceeds of which can then be used to repay your personal debts, including the house mortgage.

## 10. Contribute to an Registered Education Savings Plan ("RESP")

Take the edge off the high cost of post-secondary education by contributing to a RESP before the end of the calendar year. A contribution of \$2,500 will generate the maximum annual education savings grant of \$500, or 20% of the contribution. The lifetime maximum savings grant per child is \$7,200.

# Wanted MANAGER

## PRACTICE TRANSITIONS AND BROKERAGE

For 30 years, Purtzki & Associates have proudly offered the highest level of accounting, management and practice transition services to our clients.

We now need to meet a growing demand for our expertise in transition planning, valuations, practice sales, associateships, group practice arrangement, and the like. Consequently, we have set up a separate business unit to offer comprehensive appraisal, brokerage and transition consulting services to the dental profession in Western Canada. To assist us in realizing this tremendous potential, we are seeking a dentist or qualified individual with a background in dentistry and practice management.

If you are as excited about this opportunity as much as we are, please contact Manfred Purtzki at [Manfred@purtzki.com](mailto:Manfred@purtzki.com) or phone

**(888) 668-0629**

# Website Update

## Client Services Portal Now Available

We are excited to announce that clients can now use our website to efficiently and securely upload documentation and financial records. Visit our website at [www.purtzki.com](http://www.purtzki.com) and follow the steps. It is a simple and secure way to send us your year end data, and other important information. If you have any questions, call us.



Although we make every effort to ensure the accuracy of the information provided in this newsletter, we cannot accept any liability for its contents. We urge you to consult a professional advisor before acting on any of our ideas.  
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