

Transition to Practice

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Now that you are nearing the end of your residency, you are about to launch your career in medicine. Your education and training have provided you with a great clinical base, but has probably not addressed some of the issues you will face from a financial and business perspective.

The purpose of these notes is to provide some basic guidance on how to actually get started.

Registration

Before you can start practicing medicine in BC, there are a number of professional organizations that you should register with. There are also a few programs you should consider from a personal perspective.

Professional Registration

College of Physicians and Surgeons of BC

www.cpsbc.ca

- Licensing and regulatory body for all physicians and surgeons in BC
- Registration is mandatory to practice medicine in BC
- Must request an application form from the college
 - 604-733-7758 or 1-800-461-3008
 - Email request: https://www.cpsbc.ca/contact/email_us
- Fees
 - Registration fee \$625
 - Annual fee \$1,300
 - Corporation application fee \$300
 - Annual corporate permit \$100
- My understanding is that the college will send application forms to the medical schools in May/June, along with instructions on how to register. They will also provide a list of dates that residents can attend at the college office for assistance

Canadian Medical Protective Association (CMPA)

www.cmpa-acpm.ca

- Professional liability protection
- Members are eligible for assistance in the form of legal representation, and payment of legal costs, judgements or settlements
- No monetary limits on the assistance a member is eligible to receive
- Application
 - 1-800-267-6522
 - http://www.cmpa-acpm.ca/cmpapd04/docs/membership/com_membership-e.cfm
 - Application will not be processed until license number and effective date are provided to the CMPA
- Fees
 - Increase with exposure to risk
 - GP \$1,152 - \$4,788 depending on whether or not perform ER shifts and obstetrics
 - Hospitalist \$888
 - Anesthesiology \$3,552
 - General surgery \$10,800
 - Obstetrics \$14,292
 - Portion is refunded by provincial government

Medical Services Plan (MSP)

www.hibc.gov.bc.ca

- Registration required to be able to bill the Medical Services Plan
- Must be registered with the college before registering with MSP
- Enrolment status is contingent upon continued licensure by the college
- Billing number consists of 2 numbers
 - Practitioner number – identifies practitioner
 - Payment number – identifies payee
 - Numbers are usually the same, but there are situations where the payee will be different
 - Locums
 - Clinics or associated groups

- Hospitals or diagnostic facilities
- Application
 - 604-456-6950
 - 1-866-456-6950
 - <https://www.health.gov.bc.ca/msp/infoprac/enroll.html>
- My understanding is that the college will be bringing in a representative from MSP for a presentation and to issue billing numbers

Hospital Privileges

- Application procedures depend upon the hospitals
- Must contact the hospitals directly

British Columbia Medical Association

www.bcma.bc.ca

- Voluntary association of British Columbia physicians, medical residents, and medical students
- Represents approximately 95% of practicing physicians in BC
- Negotiates the schedule of benefits paid by the Medical Services Plan, and represents sessional, salaried and other alternative payment physicians
- Application
 - 604-638-2927
 - Email benefits@bcma.bc.ca
- Fees
 - First year of practice \$1,227.52
 - General practitioner \$2,035.04

Royal College of Physicians and Surgeons of Canada College of Family Physicians of Canada

- These are not licensing bodies
- Oversee the medical education of family physicians and specialists

Personal Registration

As medical residents, you are currently employees. Once you leave residency, you will become self-employed (unless obtain a salary position) and be responsible for your own benefits.

Medical Services Plan

- Provides basic medical coverage
- Fees
 - Single - \$726
 - Family of 2 - \$1,308
 - Family of 3 or more - \$1,452
- MSP will automatically set up a new self-pay account when your group account is cancelled
- Contact MSP if you have not received an invoice within 3 months of ending residency
- Ensure MSP has correct address

Other Insurance

- Extended Health and Dental
 - Provides coverage for services not covered by MSP
 - Available through the BCMA, Blue Cross, Sunlife
 - Many physicians choose to self-insure – pay the expenses personally and claim a medical expense tax credit on their personal income tax return
- Life
 - Benefits paid to beneficiaries upon death
 - Necessary if you have family, debts
- Disability
 - Income replacement if you are unable to practice
 - Physician's Disability Insurance (PDI) is paid for by the provincial government, but must be applied for
 - Benefit of up to \$6,100 monthly
- Critical Illness
 - Provides a lump sum if you contract certain illnesses such as cancer, stroke, or heart attack
- Helps finance recovery

Career Alternatives

Payment Alternatives

Fee For Service

- Physician bills directly for each service provided
 - Provincial insurers – MSP, ICBC, Worksafe BC
 - Federal departments – RCMP, National Defence, Veterans Affairs
 - Patients for uninsured services
- Majority of physicians are compensated in this manner
- Advantages
 - Direct payment for the services you perform
 - Flexible – you determine the blend of visits
- Disadvantages
 - Must keep up to date on the fee schedule
 - Must track outstanding claims (accounts receivable)
 - Must follow up on rejected claims

Alternative Payment Plans

- Salary
 - Not as common, being phased out by the Ministry as requires much more administration
 - Common in academic programs
- Service Contracts
 - Health authority contracts for the delivery of agreed upon services
- Sessional Fees
 - Fees per block of 3.5 hours of time to provide agreed upon services
- Advantages
 - More predictable income
 - Good for hard to manage populations that require significant time and intensity, or small populations when unable to bill sufficient fee for service (palliative care, rural / remote locations)

- Disadvantages
 - Restricts physician autonomy
 - No adjustments for complexity of patient cases
 - Delinks the compensation from the work performed

Practice Alternatives

Solo Practice

- Advantages
 - Complete autonomy
 - Control all aspects of work environment
 - Dedicated staff and resources
- Disadvantages
 - Lack of onsite peer support, coverage for illnesses / vacation
 - Greater start-up and ongoing overhead costs
 - Sole responsibility for management

Group Practice

- Advantages
 - Economies of scale – share equipment and overhead costs
 - On-site peer consultations and support
 - Shared management responsibilities
- Disadvantages
 - Less autonomy
 - Shared staff and resources – scheduling
 - Personality conflicts
 - Differing objectives between members
- Forms
 - Partnership
 - Cost-sharing arrangement
 - Corporation
- Written Agreement
 - Procedures for admission or departure
 - Responsibilities of the members and the group
 - Authority for decision making
 - Basis for expenses or profit sharing
 - Financing
 - Insurance
 - Buy-outs

Locums

- Advantages
 - Experience variety of communities and practice styles
 - Evaluate practices and communities
 - Make professional connections
 - No long-term obligations
- Written Agreement
 - Fee sharing terms
 - Payment terms
 - Obligations of locum and hiring physician

Financial Planning

Advisors

It is extremely important to build a strong advisory team to assist in your financial well being. Just as you are an expert in the field of medicine, your advisors are experts in their respective fields.

- Accountant
- Banker
- Insurance advisor
- Investment advisor
- Lawyer

Business of Medicine

As physicians, most of you will be self-employed. Although you may have gone into medicine with a desire to help people, there is also a business side to practicing. At the end of the day, the way you run your business impacts your quality of life, and future retirement. Running a business includes being aware of your revenue sources and expenditures.

Billing

- Majority of physicians will bill MSP
- Know the fee schedule
- Keep up to date on the changes
- Follow up rejections

- Billing for uninsured services
- Ignorance leads to lost income

Benefits

A number of BCMA negotiated benefits are available to all BC physicians. You do not have to be a BCMA member to access the benefits, but non-members must pay an administration fee. The amount of benefit available is based upon prior year eligible income consisting of fee for service, service contract and sessional fees.

- **Contributory Retirement Savings Plan (CPRSP)**
 - Contributions to member's personal or spousal RRSP
 - If incorporated, contributions can be paid to an Individual Pension Plan (IPP)
 - Basic benefit – dollar for dollar matching of your RRSP contribution up to entitlement limit
 - Length of Service benefit
 - Based on number of years in practice in BC
 - Need 9 months in a year
 - 20 years required to obtain maximum benefit
 - Benefit must be used within a 3 year period, or it is lost
- **Continuing Medical Education (CME)**
 - Beginning in 2011, no longer need to submit an application to claim
 - Paid in full once college confirms license has been issued
- **CMPA reimbursement**
 - Difference between current year dues and dues in 1985 (year the program started) are reimbursed
- **Physician Disability Insurance (PDI)**
 - Income replacement of up to \$6,100 per month
 - Enrolment is not automatic – must apply for it
- **Parental Leave Program (PLP)**
 - 50% of average weekly income up to \$1,000
 - Maximum 17 weeks
 - Maximum benefit \$17,000
 - Must return to work for at least 17 weeks within a year of starting leave

- **Other**

- Benefits through Divisions of Family Practice
- Rural incentive programs
- Physician Information Technology Office (PITO)

Expenses

A business cannot be run without incurring expenditures for operating costs and equipment. It is extremely important to monitor your expenses and ensure that they are reasonable and necessary. Some practitioners are unconcerned with incurring expenses because the items are “tax deductible”. Even though you can reduce your taxes by up to 40% of the expenditure, you are still out of pocket for the rest of the expense.

Income Tax

Personal income is taxed in Canada at graduated rates. The 2012 personal income tax rates on employment, business and interest income are as follows:

1 st \$37,013	20.06%
\$37,013 - \$42,707	22.7%
\$42,707 - \$74,028	29.7%
\$74,028 - \$84,993	32.5%
\$84,993 - \$85,414	34.3%
\$85,414 - \$103,205	38.3%
\$103,205 - \$132,406	40.7%
In excess of \$132,406	43.7%

The tax rates for dividends and capital gains are different from regular income.

Income tax for self-employed physicians is considerably different than for employees such as medical residents.

Employees are provided with a T4 slip reporting their income and deductions. Allowable deductions available to employees are limited to specific items listed in the *Income Tax Act (Canada)*.

Self-employed individuals must track and account for their own income and expenses. Unless specifically denied by the *Income Tax Act*, any reasonable expense incurred to earn business income is permitted.

Allowable expenses include:

- Accounting and legal
- Advertising and promotion
- Bank charges
- Continuing medical education
- Equipment lease payments
- Business insurance (excluding life, disability and critical illness)
- Interest on business loans
- Licenses and dues
- Medical library and instruments
- Meals and entertainment (50%)
- Office expenses
- Repairs and maintenance
- Salaries, locums
- Supplies
- Telephone and utilities
- Travel and automobile (to and from work is considered personal)
- Other

The only limitations on expenses are that they must be reasonable and incurred to earn business income. Keep all receipts organized, as they may be required by Canada Revenue Agency to support the deductions claimed.

Student loan interest is not deductible as a business expense, but a 20% tax credit is available for interest on government student loans. Student loans refinanced with a bank line of credit are not eligible.

Many people advise that government student loans not be refinanced with a bank loan as the tax credit will be lost. This advice could be costing you additional interest. In BC, student loans can carry a fixed rate of prime plus 5%, or a variable rate of prime plus 2.5%.

Many banks offer favourable loan rates to physicians at or just above prime. The prime rate is currently 3%.

Compare a bank line of credit bearing interest at prime to a student loan bearing interest at 5.5% (prime plus 2.5%). After taking into account the tax credit of 20%, the effective after tax interest rate is 4.4% (80% of 5.5%). The student loan rate is still 1.4% higher than the line of credit rate. On a loan balance of \$100,000, the additional annual interest cost is in excess of \$1,000.

Incorporation

Incorporation is a topic that invites many questions:

- What is incorporation?
- How do I incorporate?
- Should I incorporate? Why or why not?

Incorporation is the creation of a separate legal entity, the corporation, to earn the income from your medical practice. The ability of physicians to incorporate is governed by the *Health Professions Act (British Columbia)* and requires the approval of the College of Physicians and Surgeons of BC. Consultation with your accountant and lawyer are essential when planning to incorporate to ensure that the proper structure is put in place.

The advantages of incorporation are as follows:

Favourable income tax rates

- A BC corporation is taxed at 13.5% on the first \$500,000 of income from an active business
- Active business income in excess of \$500,000 is taxed at 26.5%
- In comparison, the highest personal tax rate is 43.7 %
- The income tax rate differential makes it advantageous for a company to pay business expenses that are not tax deductible such as life insurance, club dues, and loan principal repayments
 - Consider non-deductible expenses of \$10,000
 - Requires \$11,560 of income in a corporation to pay the expense ($\$10,000 / (100\% - 13.5\%)$)
 - Requires \$17,760 of income personally when at the highest personal tax rate ($\$10,000 / (100\% - 43.7\%)$)

Tax Deferral

- Income in the company is taxed at 13.5% whereas income earned personally is taxed at up to 43.7%
- Income not needed for personal expenditures can be left in the company, deferring income tax of up to 30%
- Permits faster accumulation of wealth
- Funds can be drawn out in the future when in a lower personal tax bracket

Income Splitting

- When unincorporated, a self-employed physician is limited to paying a reasonable salary to family members
- No reasonability limitation on dividend payments to shareholders
- Permits the physician to take advantage of lower tax rates that may be available to other family members
- A BC resident with no other sources of income can earn \$30,000 in dividends and pay nominal income tax (basically the only tax that is paid is the 13.5% in the corporation)
- Shareholders can be spouses, children, parents, grandparents, siblings
- Consider utilizing a family trust instead of each family member owning shares directly
- Should not pay dividends to children under the age of 18 – minor children are subject to the “Kiddie Tax” which effectively taxes the income at the highest personal tax rate

Flexibility

- Permits a variety of remuneration options
 - Salary vs. dividends
 - Personal Health Services Plan (PHSP)
 - Individual Pension Plan (EPP)
 - Employee Profit Sharing Plan (EPSP)
 - Retiring Allowance

Limited Liability

- Often touted as a reason for incorporation, but is less applicable to physicians and other incorporated professionals
- Physician is still personally liable for any professional act conducted through the corporation
- Banks will usually require personal guarantees from the physician for any loans of the company

The disadvantages of incorporation are as follows:

- Added complexity
- Additional reporting requirements for Canada Revenue Agency including separate corporation income tax returns and T5 slips
- Accounting and legal fees (annual and upon incorporation)

Incorporation is not worthwhile for lower income physicians or physicians who require all of their income for personal expenditures and who do not have family members who can participate in income splitting.

Other Planning Topics

- **Registered Retirement Savings Plan (RRSP)**
 - Annual contribution room of 18% of earned income up to a maximum
 - Tax deduction at marginal personal tax rate – best to take an RRSP deduction when in the highest tax bracket (43.7%) – save RRSP contributions for times of higher income
 - RRSP contribution room does not expire
 - Withdrawals from the plan are taxed
- **Home Buyers' Plan**
 - Allows taxpayer to withdraw up to \$25,000 from RRSP to buy or build a qualifying home
 - RRSP contributions must have been in the plan for at least 90 days before withdrawal
 - 15 years to repay

- **Tax Free Savings Account (TFSA)**
 - Accumulate \$5,000 of contribution room annually
 - Contributions are not tax deductible
 - Income earned in the plan is not taxed
 - Withdrawals from the plan are not taxed
 - Contributions are not advised when the taxpayer has a lot of outstanding non-deductible debt

Linkedin Group

Tax and Financial Planning for Medical Residents and New Doctors (Canada)

<http://www.linkedin.com/groups?gid=4165874>

A new forum to allow medical residents and new doctors to ask questions on income tax and financial issues they are facing.

About Wolrige Mahon LLP

- One of British Columbia's largest independent accounting firms
- 95 personnel, including 16 partners
- Full service accounting firm

About John Moore, CA

For 15 years I have focused on providing accounting, financial and tax planning advice to physicians and other health professionals. I guide physicians at all stages of their career, from medical student and resident through to established and retired practitioners.

Please contact me if you have any questions or would like additional information.

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