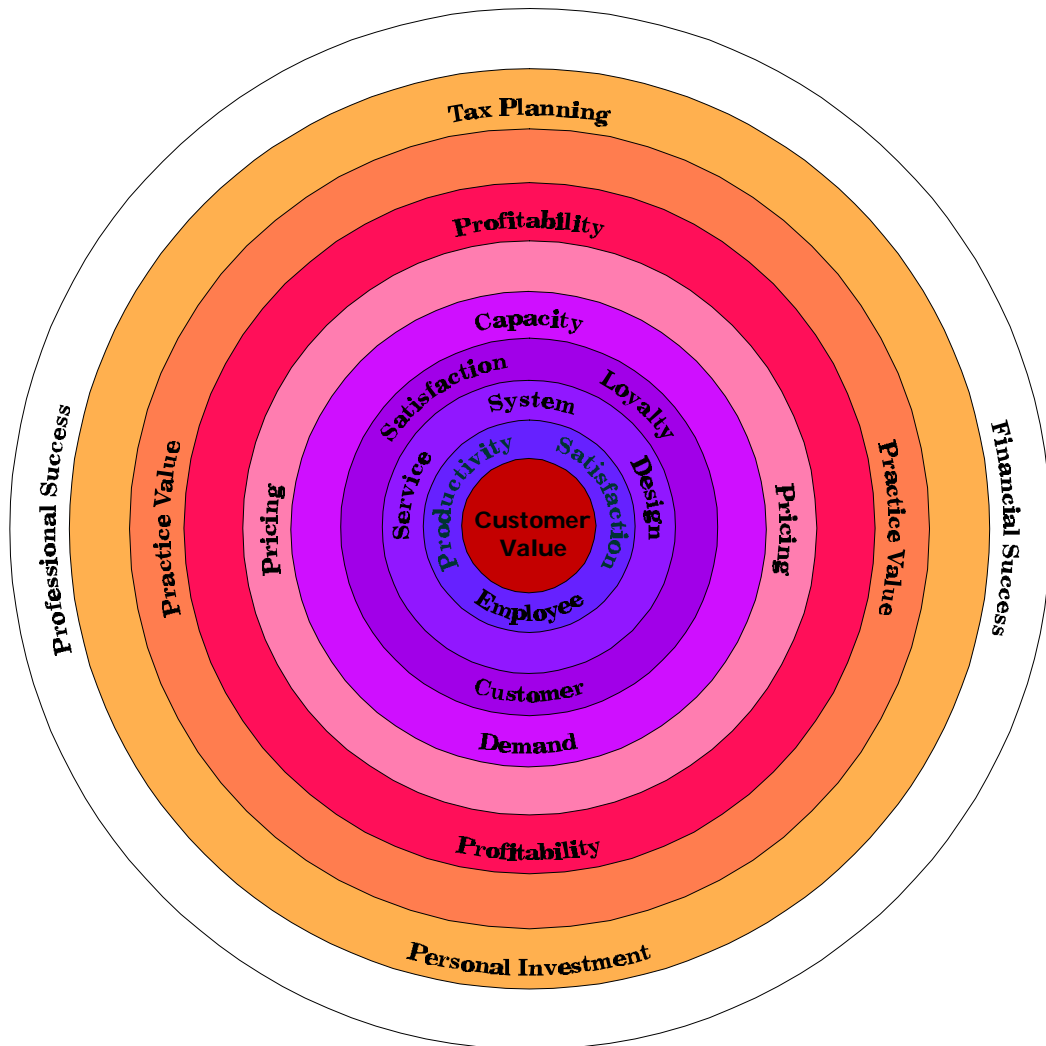
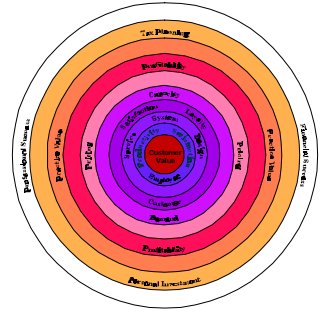


Tax Planning & Personal Investment





Tax Planning

To a great extent, tax planning needs to be customized to the individual.

Each individual is strongly advised to consult with a qualified tax planner to ensure taxation is minimized. Tax dollars saved, especially early in a career, and allowed to experience the effect of compounding returns can generate a sizable nest egg at the end of a career.

The following general comments regarding tax planning are intended only to prepare an individual for further discussions with a personal tax planner. Tax planning for veterinary practitioners is necessary at two levels:

1. Practice Tax Planning
2. Personal Tax Planning

Practice Tax Planning

Presently in Ontario veterinary practices can operate as either a sole proprietorship or as a partnership. However, it is expected that veterinary practices in Ontario will soon be allowed to incorporate. Incorporation does have advantages that will be discussed.

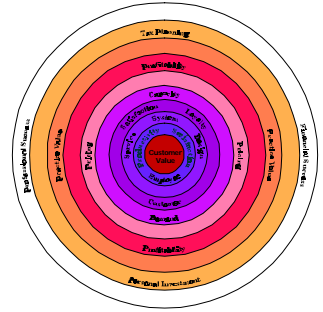
Sole Proprietorship/Partnership

In the case of a partnership or sole proprietorship, the owners' share of the net income from the practice is regarded as business income and taxed at the appropriate personal tax rate.

There is strong motivation to minimize the net income of the practice through such techniques as:

- employing family members
- expensing personal benefits through the practice
- expensing capital purchases

These strategies to minimize tax must be kept to a level that is not likely to attract attention from Revenue Canada. Owners must also be aware that, if audited, the taxes saved through these strategies may have to be paid.



Incorporated Practices

The discussion of taxation of sole proprietorships and partnerships outlined advantages that incorporated practices experience in retiring debt principal and in purchasing assets.

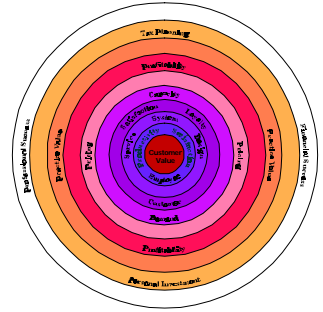
It was further outlined that an owner of an incorporated practice may also experience tax advantages through the sale of equity rather than the sale of assets. However, the following disadvantages of incorporated practices must be borne in mind:

- the purchaser of equity purchases all outstanding legal liabilities of the purchased corporation
- the purchaser of equity experiences a tax disadvantage because of the lack of assets to depreciate.

The liability transfer can generally be reduced with the implementation of a purchase agreement that leaves such liabilities with the vendor. In most instances, there will be little financial compensation to the purchaser.

However, the tax disadvantage to the purchaser of equity must be offset with a lower practice price than would be appropriate if purchasing assets. The purchaser is purchasing an after-tax cash flow. Without assets to depreciate, a greater tax burden will reduce the cash flow to an equity purchaser. The price must naturally be reduced to compensate the purchaser for these reduced cash flows. In general, the vendor selling equity will still benefit at a reduced price, as the tax savings generally exceed the price reduction.

Each practice situation will be different, and thus each owner will need customized advice. Practice owners are well-advised to do annual tax planning with their tax advisors. It should not be assumed that the accountant who prepares an annual tax return is doing the forward thinking necessary to minimize taxes in the future. Specific time should be regularly set aside to discuss and formulate tax strategies.



Personal Tax Planning

Personal tax strategies must be customized to an even greater extent than those for the practice. However, it is far beyond the scope of this article to discuss endless tax strategies.

In general, the benefit of having compounded returns grow free of tax, as is possible in retirement, educational, and some life-insurance plans, should not be underestimated. At approximately a 50% personal marginal tax rate, the investment will grow almost twice as fast if sheltered from taxation.

As with practice tax planning, one should spend time with a tax advisor, on a regular basis, to formulate personal tax strategies.

Personal Investment

As each individual will have a different adversity to risk and different expectations of appropriate rates of return, personal investment advice must be done on an individual basis. Investment strategies should be updated regularly to accommodate both personal and general economic conditions.

The goal through practice life is to generate enough after-tax dollars to provide a suitable lifestyle and allow the investment of adequate funds that will create wealth sufficient to allow a comfortable retirement at a reasonable age. Each practitioner is personally responsible for expending those energies necessary in both the professional and business domains to reach the goal.