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## Determining your tax benefits: Recent updates for doctors

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## Agenda

- Goods and Services Tax (GST)
- Scientific Research and Experimental Development (SR&ED)
- General tax planning

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## **Goods and Service Tax/Harmonized Sales Tax (GST/HST)**

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## Introduction to GST/HST

- The GST/HST is a value added tax that applies at every level in the supply chain. The GST/HST paid for expenses incurred in the course of commercial activities can be claimed back as an ITC.
- Businesses in Canada that make GST taxable supplies of property or services in Canada are required to register and collect GST/HST on the small supplier threshold is met.
- The GST/HST is imposed on most goods, services and intangibles acquired in Canada. 5% GST is also paid at the border when bringing goods into Canada.

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## Introduction to GST/HST

- The GST/HST applies at different rates across Canada as follows (Sept 2022):



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## GST/HST exempt supplies

The following are examples of GST/HST exempt supplies:

- “Qualifying health care supply”
- Cannot have a cosmetic purpose
- “Consultative, diagnostic, treatment or other health care service rendered by Medical practitioner to an individual”
- Reimbursed under provincial health plan

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## GST/HST taxable supplies

The following are examples of GST/HST taxable supplies:

- Research remuneration
- Teaching, administrations services
- Honoraria
- Cosmetic services
- Reports – medico-legal, immigration medical exams,
- On-call remuneration
- Zero-rated supplies

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## GST/HST and ITCs

- GST/HST paid on property and services acquired for use in commercial activities, **can be claimed as an ITC on GST/HST return**

If able to claim ITCs, then it is important to correctly record the GST/HST paid in system



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## ITC Allocation

- Extent costs relate to taxable and exempt supplies
  - All or substantially all (90% or more) for taxable supplies
  - All or substantially all (90% or more) for exempt supplies
  - Both taxable and exempt supplies

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## ITC Allocation

Allocation must be “fair and reasonable” and used consistently throughout the year. There are 3 possible allocation methods:

- Output Based (Revenue)
  - Demonstrate the outputs generated will give a reasonable approximation of the use of the inputs in those activities and reasonably reflects the use or intended use of inputs
- Direct (allocates inputs directly to activities)
- Input based (mixed use inputs calc. based on direct, or other proxies such as employee (FTE), space allocation etc.)

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## Cost sharing arrangements and GST/HST

- Sharing of expenses without combining businesses
- Common in exempt businesses
- Avoid resupply of costs
- Well written cost-sharing agreement
- Typical to have agency agreement - member or a management co.
- Principal must have control over agent's actions
- Act in accordance with the agreement

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## Real Property and GST/HST

- Supplies of real property are taxable unless there is a specific exemption.
- GST rebate available for non-registrants
- ITCs may be available for registrants

Key documentation needs to be kept

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## Buying and selling a practice and GST/HST

- Who is selling?
- What is being sold?
- How was it used?
- Who is buying?
- What are they buying?
- How will the new owner use the assets?
- Who is registered for GST/HST?

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## Buying and selling a practice and GST/HST

GST/HST election for sale of a business:

- There is certain criteria that has to be met
- Analysis has to be made as to whether it makes sense to make election
- Exceptions
  - Real property / leasehold interests if recipient not registered
  - Real property change of use

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## Buying and selling a practice and GST/HST

General GST/HST application to sale of business assets

- Real property and interests => taxable
- Personal property – GST/HST status depends on the use of the property.
- Goodwill => taxable if produced, used or consumed
  - > 10% in commercial activities

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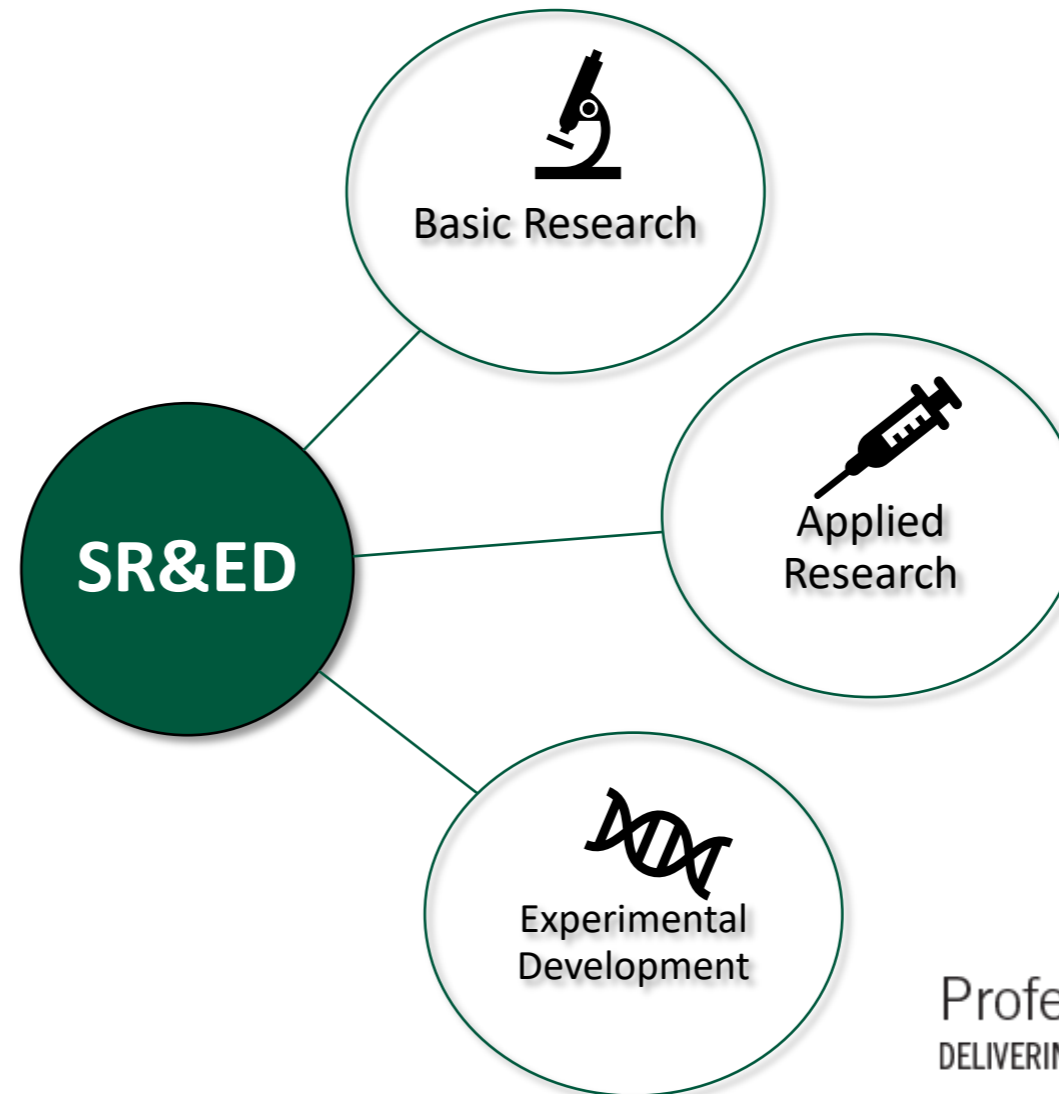
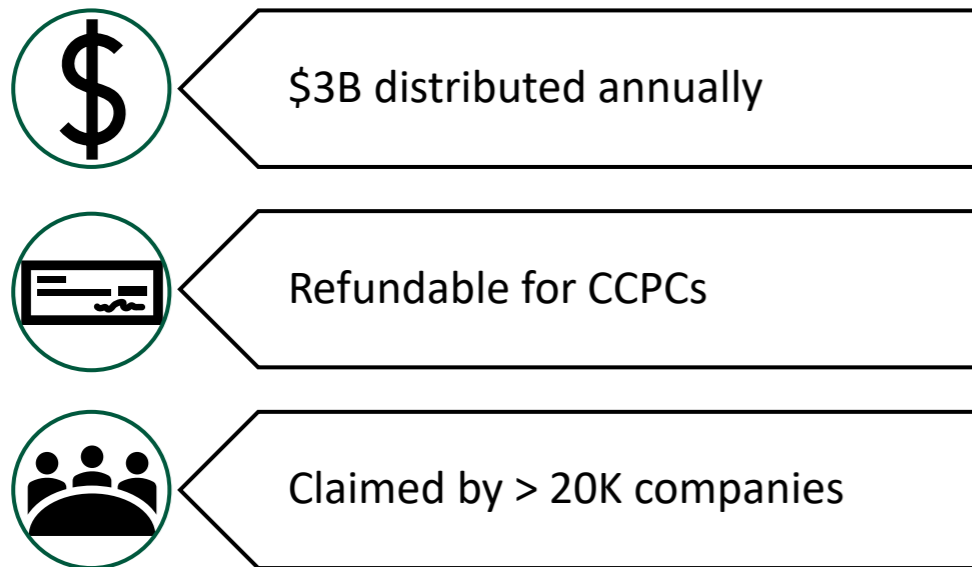


# SR&ED Federal Tax Incentive Program

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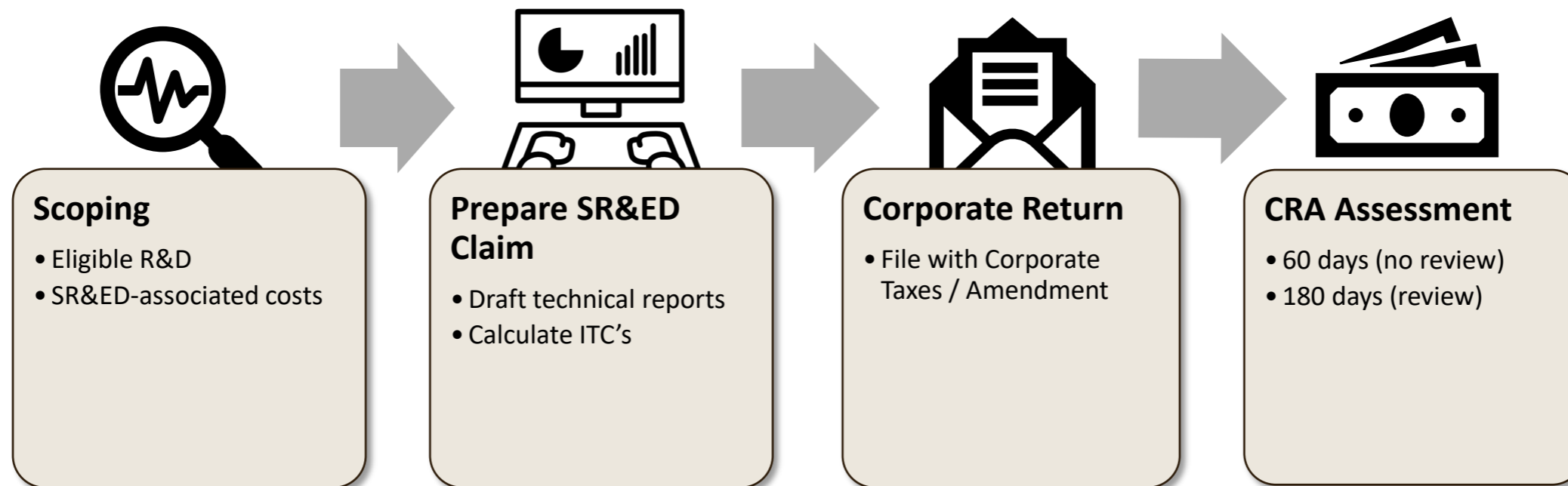


## SR&ED is a federal tax incentive program to encourage Canadian businesses to conduct R&D



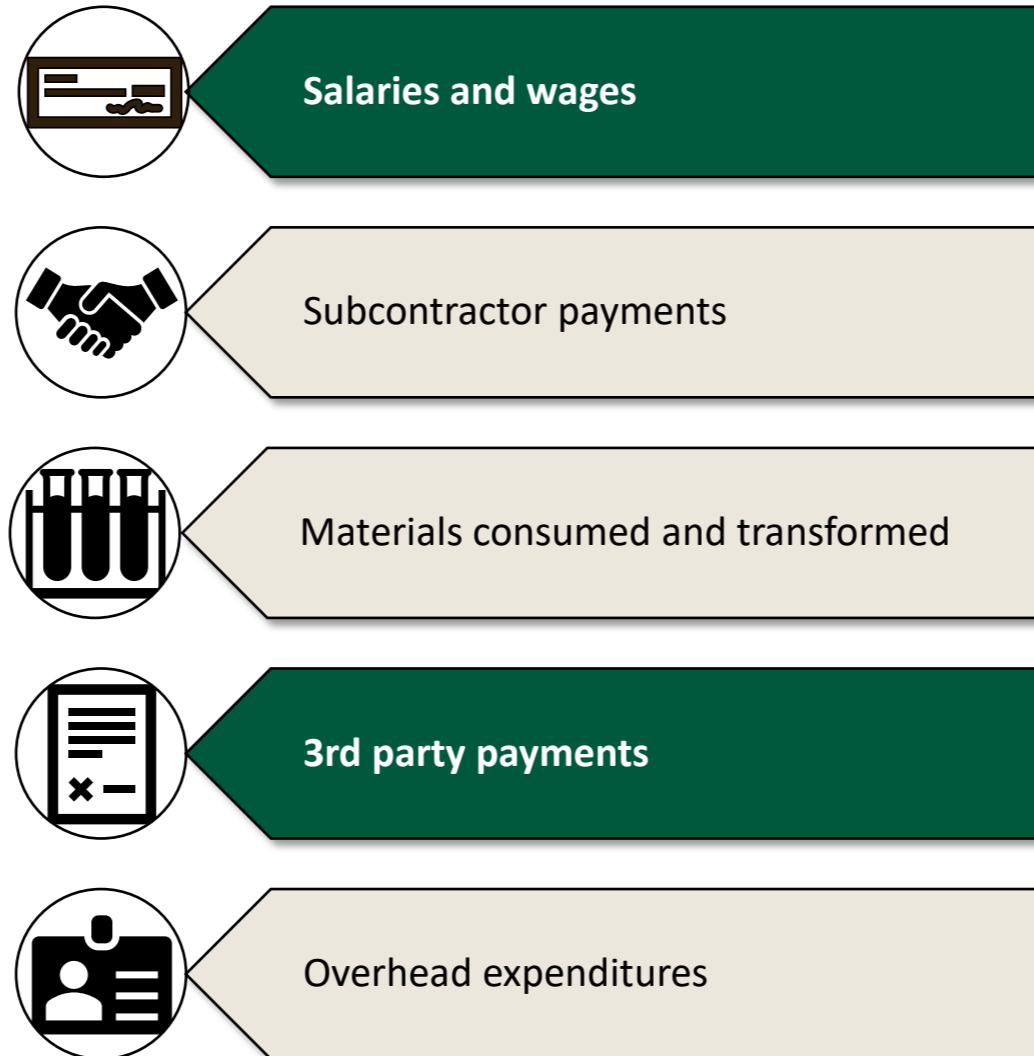
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## Applying for SR&ED Tax Credits



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## Eligible SR&ED Expenditures



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## 5 Questions that the CRA asks to Determine Eligibility:

- Was there a scientific or a technological uncertainty?
- Did the effort involve formulating hypotheses specifically aimed at reducing or eliminating that uncertainty?
- Was the overall approach adopted consistent with a systematic investigation or search, including formulating and testing the hypotheses by means of experiment or analysis?
- Was the overall approach undertaken for the purpose of achieving a scientific or a technological advancement?
- Was a record of the hypotheses tested and the results kept as the work progressed?



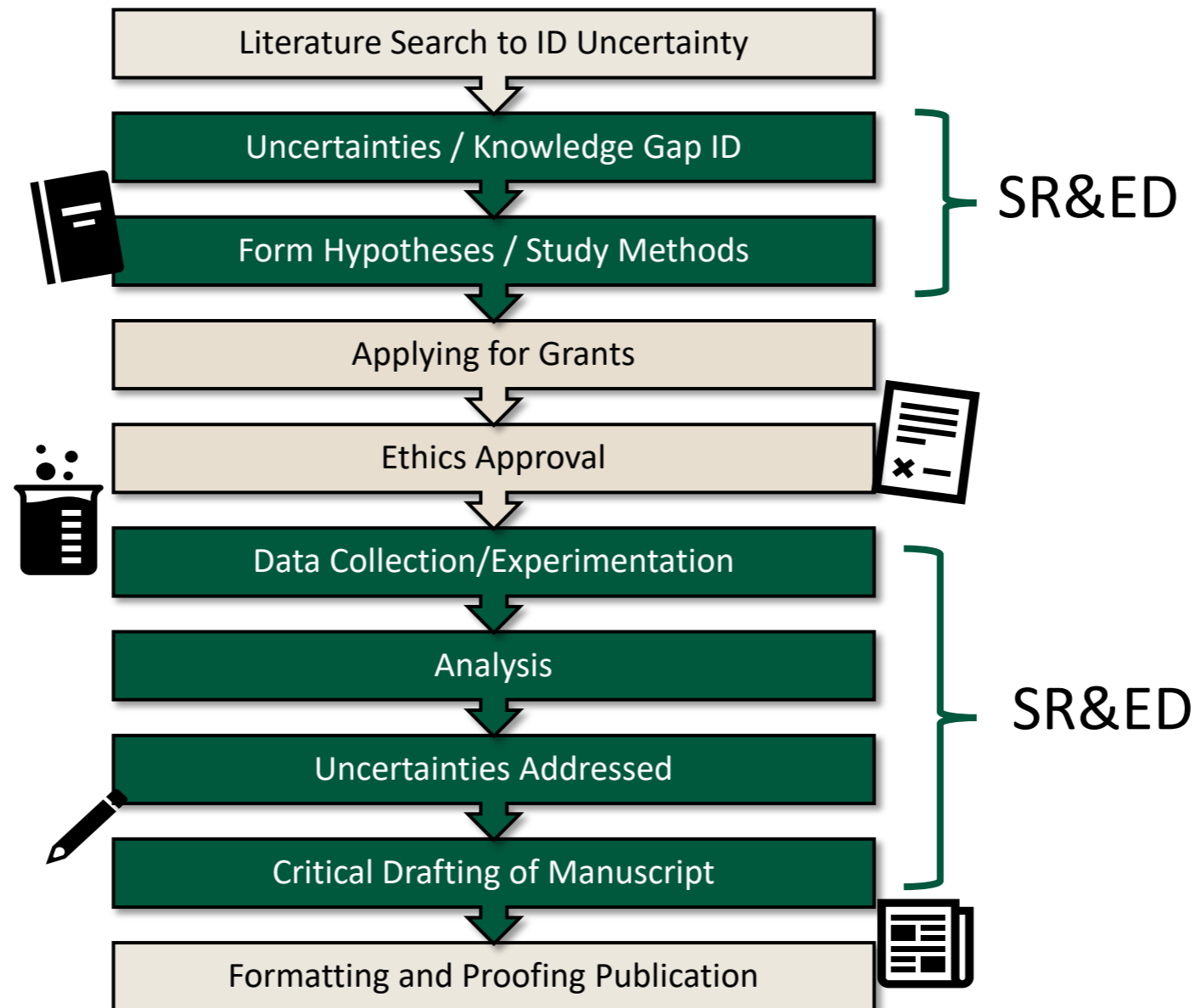
## Areas of Medical Research that are Ineligible

-  Social sciences
-  Health policy research
-  Knowledge translation
-  Adherence/compliance
-  Cost analysis
-  Medical case reports
-  Narrative reviews/editorials
-  Post-market surveillance

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## Which R&D Activities Qualify as SR&ED?



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## SR&ED Illustration: CCPC Case 2

*Investigator receiving \$300k of eligible salary and spending 25% of time on SR&ED  
(rounded to the nearest thousand)*

MPC Salary	\$300k
@ 25% time allocation on research	<u>@25%</u>
Salary for SR&ED Purposes	\$ 75k
Proxy overhead @ 55%	<u>\$ 41k</u>
Total Eligible Expenditures	\$ 116k

Federal Investment Tax Credit (35%)	\$ 41k
BC SR&ED Tax Credit (10%)	\$ 12k

Target before-tax additional SR&ED Recovery **\$ 53k**

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## Other Considerations

- Lack of salary expense (either dividends or bonus)
- SR&ED expenditure limits and enhanced ITC rates
- Funding used to support SR&ED activities (grants, awards)
- Eligible R&D expenditures should be for work conducted within Canada (>90%)





## Important Documentation to Ensure a Successful Claim

**To support an appropriate legal structure and the right to claim:**

- Article of incorporation
- Documents detailing the relationship between the academic physician and affiliated universities/hospitals
- Employment agreement between the doctor and their MPC
- Documents detailing the nature of any government or non-government assistance that was received
- Documents supporting that the R&D is being directed by the MPC

**To substantiate SR&ED related labour efforts:**

- Prospective time records capturing total labour and SR&ED hours by project and activity

**To substantiate the R&D that was undertaken and the project timeline:**

- Contemporaneously produced working documents (protocols, grants, abstracts, posters, manuscripts, and details of meeting minutes)

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## Critical Activities in Collaborative Projects

### The Corporation must:

- Define a problem (such as an absence of scientific knowledge)
- Advance a hypothesis towards resolving that problem
- Plan and test the hypotheses by experiment or analysis
- Develop logical conclusions based on the results

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# General Tax Planning

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## Tax Planning

- Things to watch for:
  - Significant one time personal cash needs
  - Income is regularly over the top tax bracket
  - Passive income in corporation regularly exceeds \$50,000 per year
  - Large unrealized gains that could lead to significant passive income
  - Excessive passive/redundant assets in an operating company
  - Any purchases of equipment since April 2021?

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# Thank you!

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