Determining your tax benefits: Recent updates for doctors

Presented by:
Shaun Howe, CPA, CA
Ravi Gaikwad, Ph.D.
Norma Orellana, CPA, CGA
Agenda

• Goods and Services Tax (GST)

• Scientific Research and Experimental Development (SR&ED)

• General tax planning
Goods and Service Tax/Harmonized Sales Tax (GST/HST)
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.
Introduction to GST/HST

- The GST/HST applies at different rates across Canada as follows (Sept 2022):
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
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
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.
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
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.)
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
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
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?
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
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
SR&ED Federal Tax Incentive Program
SR&ED is a federal tax incentive program to encourage Canadian businesses to conduct R&D

- $3B distributed annually
- Refundable for CCPCs
- Claimed by > 20K companies
Applying for SR&ED Tax Credits

Scoping
- Eligible R&D
- SR&ED-associated costs

Prepare SR&ED Claim
- Draft technical reports
- Calculate ITC’s

Corporate Return
- File with Corporate Taxes / Amendment

CRA Assessment
- 60 days (no review)
- 180 days (review)
Eligible SR&ED Expenditures

- Salaries and wages
- Subcontractor payments
- Materials consumed and transformed
- 3rd party payments
- Overhead expenditures
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
Which R&D Activities Qualify as SR&ED?

- Literature Search to ID Uncertainty
- Uncertainties / Knowledge Gap ID
- Form Hypotheses / Study Methods
- Applying for Grants
- Ethics Approval
- Data Collection/Experimentation
- Analysis
- Uncertainties Addressed
- Critical Drafting of Manuscript
- Formatting and Proofing Publication

SR&ED

Professional Cycle
DELLIVERING MORE AT EVERY STAGE.
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: @25%
- Salary for SR&ED Purposes: $75k
- Proxy overhead @ 55%: $41k
- 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
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)
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
General Tax Planning
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?
Thank you!

Ravi Gaikwad, PhD
Senior Manager, SR&ED
Ravi.Gaikwad@mnp.ca
(778) 372-5357

Norma Orellana, CPA, CGA
Senior Manager, Indirect Tax
Norma.Orellana@mnp.ca
(604) 949-2116

Shaun Howe, CPA, CA
Partner, Professional services
Shaun.Howe@mnp.ca
(778) 571-3522