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NEWSLETTER

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Retreatment Clauses Causing Headaches

We noticed over the last year that the retreatment provision in the buy/sell agreement has become a contentious issue. Often we see the buyer being very critical and opinionated in his assessment of the patient. One vendor is getting, in his opinion unjustified, retreatment bills for \$10,000 to date, and he is expecting this to double by the time the clause expires. Especially when the relationship between the parties have soured, the buyer will likely grind the vendor on the Redo clause.

Here is how the vendor can minimize the financial damage:

1. Any retreatment should be redone by the vendor, if feasible;
2. Limit the time period up to 2 years depending on the nature of the treatment;
3. Limit the dollar amount on a case by case basis with an aggregate total amount;
4. Consider dropping the redo clause in exchange for a price reduction of say \$5,000;
5. Consider putting into the clause an objective validation of the need for retreatment by a neutral third party dentist;
6. Make the case for no clause by giving the buyer the ability to conduct a thorough "quality of care" analysis, by reviewing patient records and radiographs.

Gaining the Competitive Edge in Tough Economic Times

As you see your RRSPs taking a big hit, and the practice gross slipping as patients delay treatment, or lose the employers' insurance coverage, it is a challenging time to stay positive and keep your team motivated. Naomi Cooper in the Woman Dentist Journal offers these tips:

from the dentist welcoming the patient to the practice is a great touch, and keeps the "no-shows" down.

1. Call patients, especially those who are new to the practice, to confirm the appointment. A personal call
2. Stagger staff lunch hours to ensure the phone is always answered.
3. Make sure you and your staff always carry elegantly designed business cards with them, to hand them out to everyone they meet, and get the benefit of the word of
4. Offer free cosmetic work to your staff. Your staff feels happy and appreciated, and their dazzling smiles are a great advertisement.
5. Shift your shifts by staying open till 8pm on some evenings, or open on Saturdays. Often the patients cannot get time off from their employers during working hours.

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Maximizing Wealth for Dentists

The 1% Solution

CRA has announced that, for the second quarter (April 1, 2009 to June 30, 2009), the prescribed interest rate on taxable benefits for employees and shareholders, as well as family loans, has dropped to an all-time low of 1%. The rate is based on 90-day treasury bills, and unless there is a jump in the interest rates, you can expect to enjoy same low interest rate for the remaining quarters of 2009.

On the face of it, this 1% interest rate may not excite you, but it does offer some creative tax planning opportunities. For example, you take out a shareholder's loan of \$100,000 on June 1, 2009 from your dental corp., which has a fiscal year-end of May 31. You can choose to report it as a dividend in 2009, and pay tax of about \$30,000. Alternatively, you can pay tax on a taxable benefit of \$1,000 for 2009 and 2010 (assuming the CRA rate stays the same for each quarter), which relates to a tax of about \$400 for each of the years. You either pay the loan back to the company before March 31, 2011, or report it as a dividend in 2011, and pay the tax by April 30, 2012. This is a great strategy, especially when you need funds temporarily, such as a bridging loan for purchasing a new home, or simply to defer tax for a couple of years.

Speaking of housing loans, a shareholder or related party cannot take out a loan from the company to purchase a residence, unless it is repaid within two years. This limitation does not apply to the other employees of your practice. For instance, the company can lend your assistant \$50,000 interest-free toward the purchase of a home. If you have a written agreement acknowledging the 0% and repayment terms, then you can lock in the 1% CRA rate for the next 5 years. Your assistant will report a taxable benefit of \$500 on the outstanding loan for each of the next 5 years.

The 1% interest rate also makes it easier to live with the attribution rules when splitting income with family members. When you gift or lend cash or other assets to a spouse or minor child, then the income earned on the transferred property is treated as your income. One exception is capital gains earned by minor children. The

rule of attributing income back to the transferor is avoided where the funds are lent at an interest rate at least equal to the prescribed rate and the interest is paid within 30 days after the year-end. If the loan is made when the rate is 1%, then the rate is fixed for the duration of the loan. Repayment by January 30 of the following year is critical. If you miss the deadline once, the income splitting scheme is doomed, and you have to start fresh.

Suppose you lend \$300,000 to your lower income spouse or minor child, which is invested at 5%, yielding \$15,000 of investment income per year. After deducting the interest payment to you of \$3,000, the net income shifted to the low-income family members is \$12,000.

There is also a great income splitting strategy involving your dental corp., which goes something like this. The company has a loan owing to you in the amount of \$300,000. The company writes you a cheque for this amount. You lend the funds at the current 1% interest rate to your spouse or adult child (this plan does not work for minor children), who in turn lend the funds back to the company at a market rate of say 8%. Your spouse or child pays tax on an annual income of \$21,000, after deducting the interest payment to you of \$3,000. If you do these cheque transactions at the same time, the bank will usually process the payments without having the funds in the corporate bank account.

Income splitting with children 18 years or older is advantageous, as it is an effective way to fund education and utilize the tuition and education tax credits. To split income, you must either gift money or lend the funds at no less than prescribed rate, or the income will be attributed back to you. Attribution rules apply where you lend money based on non-interest bearing promissory note, a scenario I have come across many times in documenting loans to adult kids.

With investment returns expected to increase as we slowly dig ourselves out from under the recession, locking in a family loan arrangement at 1% will boost the income you are able to shift to family members in lower tax brackets.

The Retirement Nestegg - How Much Do You Really Need?

When you graduated from dental school, your ticket to success was pretty much guaranteed, and your confidence to create wealth during your career was well founded. There was no question you would build up financial resources to continue your lifestyle in retirement that you enjoyed while working. The reality is, according to surveys, that less than 20% of physicians can actually retire and maintain their preferred lifestyle, without ever worrying about money. The remaining 80% are concerned that the current investment climate will not allow them to build the nestegg they have hoped for. Many dentists are currently experiencing a significant drop in their net worth, and they are compelled to take a more proactive approach in managing their money.

You have known for years how important it is to plan for your retirement, but where do you begin?

Step 1: Project your retirement expenses.

You will need to estimate how much income you will require to fund your retirement. You can start with your current income, and reduce it by the cost of expenses for which you are no longer responsible, such as mortgage payments, and university financing. Then, adjust the budget to your specific situation, to include, for example, the cost of your travel plans, or the fact you will be working part-time.

Step 2: Pick the retirement date.

How long do you plan on being retired? The longer your retirement, the more years of income you need to finance it.

Step 3: Determine the size of your retirement nestegg

How much income you can draw from your investments will depend on the size of your portfolio. To figure this out, use the following factors:

Equity Investor - 8%
Balanced Investor - 6%
GIC/bond Investor - 4%

Assume you estimated an annual before tax retirement income from your balanced portfolio of \$100,000 for 30 years. According to the table you will need \$1,376,483. Inflation and CPP/OAS are not considered.

CAPITAL REQUIRED			
Annual income needed	Equity 8%	Balanced 6%	GIC 4%
\$50,000	\$562,889	\$688,242	\$864,602
\$75,000	\$844,334	\$1,032,3625	\$1,296,902
\$100,000	\$1,125,778	\$1,376,438	\$1,729,203
\$125,000	\$1,407,223	\$1,720,604	\$2,161,504
\$150,000	\$1,688,668	\$2,064,725	\$2,593,805

Case Scenario

Dr. Peter, 53, married, with adult, financially independent children, just paid off his mortgage. The only investment is a combined \$400,000 RRSP. His corporation pays him and his wife a salary of \$100,000 and \$30,000, respectively. Dr. Peter wants to retire at age 60. Assuming maximum RRSP contributions for the next 7 years invested at 6%, and factoring in a 2% inflation rate, the annual after-tax income will be \$52,000. If he requires \$80,000 of retirement income, then he would need to save \$4,000 per month outside the RRSP until age 60.

Alternatively, he can work until age 66, to receive \$80,000 per year without saving the extra money.

Here are a couple of tips to help speed up your retirement savings.

Always save in your dental corporation. To take advantage of corporate tax rates, which are currently at 13.5%, you should invest your practice surplus in the corporation. Only take funds from the corporation to fund your personal and living expenses. You will need to deal with the personal taxes when you eventually take an income from the corporation, but there are many tax saving strategies available to minimize the cost of withdrawal.

Similar to stepping on the scale to check whether the weight loss program is working, you should periodically prepare a net worth statement to check the progress of your money accumulation efforts, and what remedial action you need to take to get back on track to ensure a healthy financial future.

PRACTICE OPPORTUNITIES

If you are looking forward to becoming an owner of a thriving practice in:

- Campbell River
- Port Alberni
- Nanaimo
- Courtenay
- Squamish

Please contact Manfred for more information.

ELEMENTS OF PRACTICE SUCCESS

1. Be passionate about what you want to achieve in your career.
2. Write down your vision for the practice and share it with your team.
3. Hire only the best people.
4. Make the tough decisions. Don't procrastinate in making decisions to remove any hurdles in your quest to operate the best practice.
5. Don't milk your skills; continuously build them.
6. Find ways to turn patients in to raving fans.
7. Celebrate success!

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