

CMA Brief:

Small Business Perspectives of Physician Medical Practices in Canada

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The Canadian Medical Association (CMA) is the national voice of Canadian physicians. Founded in 1867, the CMA's mission is helping physicians care for patients.

On behalf of its more than 83,000 members and the Canadian public, the CMA performs a wide variety of functions. Key functions include advocating for health promotion and disease/injury prevention policies and strategies, advocating for access to quality health care, facilitating change within the medical profession, and providing leadership and guidance to physicians to help them influence, manage and adapt to changes in health care delivery.

The CMA is a voluntary professional organization representing the majority of Canada's physicians and comprising 12 provincial and territorial divisions and over 60 national medical organizations.

Executive Summary

The Canadian Medical Association (CMA) is the national voice of Canada's doctors, representing more than 83,000 physicians across all regions in the country. With this brief, the CMA provides a portrait of medical practice as small businesses in Canada. A significant proportion of Canada's physicians are self-employed, small business owners, whose medical practices are incorporated as Canadian-Controlled Private Corporations (CCPCs).

Reflecting the significance of the CCPC framework to medical practice in Canada, the CMA strongly supports the federal government's commitment to reduce the small business taxation rate from 11% to 9%. However, the CMA has been concerned with some statements regarding the incorporation of professionals. In response to the federal government's statement, the CMA has received a significant volume of correspondence from its membership; unprecedented in our almost 150 year history.

Presented within this brief are the results of a survey undertaken by the CMA to explore physician incorporation. The survey was distributed to a sample of 25,000 physicians on Dec. 21, 2015 and closed on Jan. 8, 2016 with a response rate of 9%.

Among the key findings of the CMA's survey on incorporation was that more than 8 out of 10 respondents indicated that they were incorporated and reported an average of 2 full-time employees in their professional corporation, including themselves. When part-time employees were included, this increased to an average of 3 employees. Survey respondents confirmed that physician gross (pre-tax) salary is not representative of net salary; where overhead expenses were reported to be 29%, on average, of gross (pre-tax) professional income. Of note, there have been several studies at the provincial level that specifically researched overhead expenses; these studies found average overhead expenses to exceed 40% of gross salary.

The results of the CMA's survey confirms that the CCPC framework provides a critical tax equity measure that recognizes the unique challenges they face as small business owners and critical to the operation of the practice model, particularly supporting community-based care. In some cases, the practice model is only economical within this framework. An important fact is that unlike other small business owners, physicians cannot pass on any increases in compliance or operating costs to patients, given the design of Canada's public health care system.

When asked to consider the likelihood of various actions they may take should the federal government alter the CCPC framework, a large majority (75%) of the respondents indicated that they would be very or somewhat likely to take one or more of these actions:

- more than half (54%) of practicing physicians said that they would be very or somewhat likely to reduce the number of hours worked;
- 42% would be very or somewhat likely to reduce office staff; and,
- about one quarter indicated that they would be very or somewhat likely to pursue other measures such as closing their practice and retiring (24%) or relocating their practice to another provincial/territorial jurisdiction (26%) or to the U.S. or another country (22%).

This brief also highlights the policy imperative for extending incorporation to medical professionals. As captured in Ontario's 2000 budget document, it is "to level the playing field with other self-employed individuals who can choose whether to operate their businesses through a corporation".¹

Finally, the CMA's core recommendation to the federal government is to maintain tax equity for medical professionals by affirming its commitment to the existing framework governing Canadian-Controlled Private Corporations.

Introduction

The Canadian Medical Association (CMA) is the national voice of Canada's doctors. The CMA is the voluntary professional organization representing more than 83,000 physicians across all regions in Canada and comprising 12 provincial and territorial medical associations and more than 60 national medical organizations. The CMA's mission is helping physicians care for patients.

The purpose of this brief is to provide an overview of medical practice as small businesses in Canada. As is discussed herein, a significant proportion of Canada's physicians are self-employed, small business owners, whose medical practices are incorporated as Canadian-Controlled Private Corporations (CCPCs). As such, the CMA strongly supports the federal government's commitment to reduce the small business taxation rate from 11% to 9%, as outlined in the mandate letter for the Minister of Small Business and Tourism.²

1) Most Physicians are Small Business Owners

Canada's physicians are highly skilled professionals, providing an important public service and making a significant contribution to the knowledge economy. In light of the design of Canada's health care system, the vast majority of physicians are self-employed professionals operating medical practices as small business owners.

More than 8 out of 10 respondents to the CMA's survey indicated that they were incorporated; 81% indicated that they were incorporated individually while 4% indicated they were incorporated in a group. Nationally, it is estimated that approximately 60% of physicians are incorporated.³

Physician-owned and run medical practices ensure that Canadians are able to access the care they need, as close to their homes as possible. In doing so, Canadian physicians are directly and indirectly responsible for hundreds of thousands of jobs across the country, and invest millions of dollars in local communities.

Respondents to the CMA's survey on incorporation reported an average of 2 full-time employees in their professional corporation, including themselves. When part-time employees were included, this increased to an average of 3 employees. In operating their medical practices, Canada's physicians rent, lease or own office space and further contribute to local economies through municipal taxes on these properties.

To inform the development of this brief, the CMA distributed a survey to explore physician incorporation to a sample of 25,000 practising physicians and resident trainee members via email on Dec. 21, 2015. By the close of the survey on Jan. 8, 2016 there were 2,263 respondents, representing a response rate of 9%. The results of the CMA's survey estimates are considered accurate within +/- 2.1%, 19 times out of 20. The results of this survey will be presented throughout this brief.

Like other self-employed small business owners, physicians typically do not have access to pensions or health benefits. In addition, as employers, physicians are responsible for the provision of payroll taxes and benefits for their employees.

Employment in medical practice

A physician wrote to the CMA to explain that tax measures that impact the medical practice also impacts the individuals employed by the small business owner, the physician, operating the medical practice.

2) Increased Cost-Burden for Canada's Doctors

Canada's physicians face unique, additional financial and personal burdens in owning and operating medical practices in comparison with other small businesses. First, amongst Canada's small business owners⁴, Canada's physicians are highly skilled and trained professionals. On average, physicians enter the workforce at a later age with significant debt from education. The average age that family physicians enter practice is over 30 years and over 33 years for specialists.⁵

The 2013 National Physician Survey explored the issue of debt levels. It found that the proportion of medical students expecting debt of \$100,000 or more doubled from 15% in 2004 to 30% in 2012.⁶ Further, a third of medical residents expect debt to be over \$100,000 and 19% expect debt to exceed \$160,000 before entering practice.⁷

For Canada's doctors, the high level of education-related debt and the later age they are able to initiate professional earnings represents a significant challenge for personal financial planning, notably retirement planning.

Second, it is not well known that physician gross (pre-tax) salary is not representative of net salary. In addition to the expenses of running a medical practice, such as salaries and rent, physicians have a range of professional fees that are required by regulation to be submitted. According to the respondents to the CMA's survey on incorporation, these overhead expenses were reported to be 29%, on average, of gross (pre-tax) professional income. Of note, there have been several studies at the provincial level that specifically researched overhead expenses; these studies found average overhead expenses to exceed 40% of gross salary.⁸

Finally, unlike most small business owners, as providers within a public health care systems, Canada's physicians cannot pass on any cost increases associated with operating their medical practice. The majority of physician remuneration in Canada is through "fee-for-service" systems⁹ whereby fees for insured physician services¹⁰ are set by the province following negotiations with the provincial medical association. Any increases in the cost of operating a medical practice, including changes in taxation, would be borne by the physician directly, as would the potential additional resource burden incurred in responding to a change to the CCPC regulatory framework. It is not surprising then that one study found that "high-income, self-employed physicians are much more sensitive to the marginal tax rate than would be suggested by previous labor-supply studies".¹¹

Physicians cannot pass on increased costs

A physician from Alberta wrote to CMA to explain “we have no way to adjust our income other than working more hours which then leads to burnout...many physicians are forced to work past the age of retirement.”

The results of the CMA’s survey on incorporation with respect to personal financial planning highlight the concerns associated with the unique burdens facing physicians in operating a medical practice. A strong majority (92%) of respondents rated the ability to save for retirement as very important for personal financial planning. A majority (61%) of respondents indicated the ability to pay off debt and half (50%) indicated the ability to manage practice overhead costs as very important for personal financial planning.

3) Role of Incorporation for Ensuring Tax Equity for Medical Professional

As reviewed above, in light of the design of Canada’s health care system, the majority of physicians are self-employed professionals and small business owners. Like other small business owners, physicians do not have access to pension and health benefits, despite investing in local communities and providing employment. Unlike other small business owners, physicians commence professional income later in life and carry high debt levels associated with education and training. In light of these significant considerations, the CCPC framework represents a measure of tax equity for Canada’s physicians.

In Canada, the 12 jurisdictions have extended the ability to incorporate to medical professionals. As stated in Ontario’s 2000 budget document, the underlying policy purpose of extending incorporation to medical professionals is “to level the playing field with other self-employed individuals who can choose whether to operate their businesses through a corporation”.¹²

For self-employed professionals, incorporation offers many well recognized benefits. As highlighted by most taxation guidance, the application to the small business deduction and the ability to retain income in the corporation are significant benefits of incorporation for small businesses.¹³ For self-employed medical professionals without access to an employer pension or benefits, the ability to retain income in the corporation contributes to retirement and pension planning capabilities. Finally, the CCPC framework allows for income splitting with family members in almost all jurisdictions.

The CMA’s survey on incorporation explored the benefits of the CCPC framework. The top rated benefit of incorporation was the ability for professional income to be taxed at the small business taxation rate, with 85% rating it as very important. In comparison, 60% of respondents indicated that income splitting with a family member was very important.

Why incorporation matters

A CMA member wrote to explain why incorporation matters, as follows: “A medical business is unique, in that, we often have to be open even if the physician is on a course/vacation/other reasons, because we are a public service. It is known our overheads are a large proportion of our fees. I think the incorporation model makes sense. If we all became salaried, service could differ, because of reduced flexibility and affordability, of having extra staff and means required to run a public service.”

4) Changes to the CCPC Framework and Potential Unintended Consequences

As noted above, the federal government has committed to reducing the small business taxation rate from 11% to 9%. In recognition of the significant financial pressures managed by physicians owning and operating medical practices, the CMA strongly supports this commitment.

However, along with this commitment, the federal government has made concerning statements regarding professionals and the CCPC framework. While the federal government has not indicated a specific measure or timeline, the statements on their own have yielded significant uncertainty and concern. In response to the federal government’s statement, the CMA has received a significant volume of correspondence from its membership; unprecedented in our almost 150 year history.

The CMA cannot emphasize enough the need for caution in considering changes to the CCPC framework. The CCPC framework and the ability of incorporated physicians to maintain access to the small business rate is fundamental to the business model for these medical practices. Changes to the framework could have real and far-reaching impacts. Beyond the immediate impact to a physician, employees of a medical practice, and the region the medical practice serves, depending on the scope of changes to the CCPC framework, impacts could be at the health-sector level, particularly in terms of shifting the delivery of care away from institutionalized care toward community-based care.

The physicians surveyed by the CMA were asked to consider the likelihood of various actions they may take should the federal government alter the CCPC framework. A large majority (75%) of the respondents indicated that they would be very or somewhat likely to take one or more of these actions:

- more than half (54%) of practicing physicians said that they would be very or somewhat likely to reduce the number of hours worked;
- 42% would be very or somewhat likely to reduce office staff; and,
- about one quarter indicated that they would be very or somewhat likely to pursue other measures such as closing their practice and retiring (24%) or relocating their practice to another provincial/territorial jurisdiction (26%) or to the U.S. or another country (22%).

Impacted by uncertainty

A CMA member recently explained that a new cardiology clinic being developed would only be an economically viable venture within the context of the CCPC framework and access to the small business rate. This cardiologist explained that even the uncertainty introduced by the federal government's statements is risking the viability of this clinic.

The responses to the CMA's survey on incorporation align with the limited research available on this issue. In a study that explored the interprovincial migration of physicians confirmed that "the differences in real income have a positive and significant effect on a physician's decision to migrate from one province to another".¹⁴ Another study that explored the impacts of taxation on physicians, noted that "it has been demonstrated in the literature that physicians in higher-tax states work less on average".¹⁵ These studies emphasize the potential for unintended consequences should changes to the CCPC framework impact physician medical practice.

Conclusion

As outlined in this brief, the majority of Canada's doctors are self-employed, highly skilled professionals providing a critical health care contribution in communities across the country. For these physicians, the CCPC framework provides a critical tax equity measure that recognizes the unique challenges they face as small business owners. For the vast majority of incorporated physicians, the benefits of the CCPC framework are critical to the operation of the practice model, particularly supporting community-based care. In some cases, the practice model is only economical within this framework.

In light of the intrinsic role of the CCPC framework to medical practice, and therefore the provision of medical care in Canada, the CMA encourages significant caution in considering any potential changes to this framework. The CMA's core recommendation to the federal government is to maintain tax equity for medical professionals by affirming its commitment to the existing framework governing Canadian-Controlled Private Corporations.

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