

The 2024 federal budget: Bad news for medical professional corporations

The 2024 federal budget¹ was released on 16 April 2024. It includes major spending on housing, the Canada Disability Benefit, and a national school food program.² These initiatives will come at a significant cost: Finance Minister Chrystia Freeland projected a \$40 billion deficit this fiscal year. According to the CBC, the government will spend more this year to service the growing \$1.4 trillion national debt than on health care.²

To help pay for some of its commitments, the government increased the taxable portion (aka the “inclusion rate”) of capital gains from 50% to 66.67%. Changes take effect on 25 June 2024³ and are expected to bring in about \$19.3 billion over the next 5 years.⁴

The government’s plan to tax the “very wealthiest” has been criticized by many for failing to account for how middle-class Canadians and small businesses, including medical professional corporations, will be affected. Immediately following the budget announcement, CMA President Dr Kathleen Ross’s remarks were quoted in a *Globe and Mail* article titled “Changes to capital-gains tax may prompt doctors to quit, CMA warns.”⁵

So, what is a capital gain? And why do these changes matter to physicians?

A capital gain is an appreciation in value above what was originally paid to acquire an investment. Capital gains generally apply to the sale of stocks, real estate (except

a principal residence), and assets used in a business. For example, if you buy stocks for \$100 000 and sell them for \$150 000, the capital gain is \$50 000. At an inclusion rate of 50%, that means \$25 000 would be added to your total income and taxed at your applicable tax rate [Table].⁶ Of note, capital gains inclusion rates have varied in recent decades, reaching as high as 75% in the 1990s.⁴

Many Canadians will not be affected by the tax increase, because the new 66.67% inclusion rate applies only to gains over \$250 000 for individuals.⁷ Individual capital gains below \$250 000 that are outside of a sheltered tax account like a TFSA or RRSP will still be taxed at the 50% inclusion rate.

However, the majority⁸ of physicians are incorporated, a structure that enables them to earn professional income that is taxed at a lower tax rate than if that income was earned personally. The corporation’s tax-deferred dollars can then be invested as retirement savings, and physicians can pay themselves income in the form of salary or dividends. Unlike individuals, whose capital gains are taxed at 50% for the first \$250 000, physicians’ medical corporations receive no such exemption and will have *all* of their capital gains subject to the 66.67% inclusion rate.⁶ In other words, the new higher inclusion rate applies to every dollar of capital gains of a corporation. A physician would realize the effects of these changes upon selling property or cashing in investments or shares held by their corporation.⁷

Until now, the integration of corporate and personal taxes would generally make a taxpayer indifferent to realizing a capital gain personally versus corporately. The changes introduced in the 2024 federal budget have thrown the foundational principle

TABLE. Example showing the integration of personal and corporate tax rates assuming a BC individual at the top marginal tax rate.

	Existing rule	New rule
Corporate income tax		
Capital gain	100 000	100 000
Taxable capital gain	50 000	66 667
Corporate tax rate	50.67%	50.67%
Corporation income tax	25 335	33 780
Refundable tax (assumes full refund)	(15 333)	(20 444)
Net corporate tax after dividend refund	10 000	13 300
<i>Amount available for distribution</i>	90 000	86 700
Personal income tax		
Capital dividend (tax-free)	50 000	33 333
Non-eligible dividend	40 000	53 367
Tax rate on non-eligible dividend	48.89%	48.89%
Personal tax	19 556	26 091
Total personal and corporate tax	29 556	39 391
Fully distributed tax rate	29.56%	39.39%
Compare to capital gain individually		
Existing rule		
First \$250 000	26.75%	26.75%
Exceeding \$250 000	26.75%	35.67%

Source: Matthew Baker, CPA.

of integration into disarray, now making it significantly disadvantageous to realize capital gains in a corporation before the net proceeds are distributed.

Dr Ross called the changes “one more hit to an already beleaguered and low-morale profession.” On behalf of the CMA, Dr Ross has asked the government to exclude medical professional corporations from the capital gains changes. At the time this editorial was published, no response to this request had been communicated. Alternatively, I wonder if it might be prudent to ask that individuals be allowed to allocate their annual personal capital gains limit of \$250 000 to their corporation.

What now? Do we feverishly sell off investments prior to 25 June 2024? Invest outside of the corporation going forward? Or continue as is? I will require the careful analysis of an accountant to determine the best financial strategy. The more difficult problem to address for some, however, might be the psychological sting of

once again feeling underappreciated by our government. ■

—Caitlin Dunne, MD, FRCSC

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Driving toward injury-free roadways

In the afternoon of Wednesday, 17 April 2024, a cyclist was struck and killed by a pickup truck in East Vancouver. This tragic event was the 14th death due to a road crash in Metro Vancouver this year, and the province-wide fatality count is higher still. For every road death, there are severalfold more people requiring hospitalization or other health care due to traffic-related crashes, which cause roughly 300 fatalities, 4000 hospitalizations, and 60 000 emergency department visits per year in British Columbia.¹ The overwhelming majority of these harms can be prevented.

The vision-zero approach to road crashes aims to eliminate fatalities and serious injuries due to road crashes by addressing the transportation infrastructure and policy decisions that are the root causes of road crashes. This goal has been endorsed by BC's Office of the Provincial Health Officer, which has called for comprehensive action in the areas of safe speeds, safe roadways, safe vehicles, and safe road users.²

Safe vehicle speeds are crucial to prevent serious injuries due to crashes; higher speeds make crashes both more likely to occur and more severe in their outcomes. A substantial body of evidence indicates that a pedestrian struck by a vehicle moving at 50 km/h may have a 20% chance of survival, while a pedestrian struck at 30 km/h has a greater than 90% chance of survival.³ Action from local governments has been promising: over 60 municipalities in BC have lowered speed limits from the standard 50 km/h to 30 or 40 km/h in specified areas or community-wide.

Posted speed limits are one of many important tools available to improve driving safety. Also important is that the design of roadways promotes safety and is coherent with posted speed limits. Traffic-calming design choices such as narrower lanes, speed

humps, and small roundabouts on residential streets have been shown to decrease vehicle speeds.⁴ Meanwhile, interventions such as raised crosswalks and protected cycling lanes can facilitate safe movement amid roadways.

Strategies to support walking, cycling, and public transit use can decrease injury risk at the population level.

While roadway designs and policies can decrease the harms from crashes, an overall transportation mode shift away from personal vehicles may be most impactful. Strategies to support walking, cycling, and public transit use can decrease injury risk at the population level. Safe and active transportation options can prevent chronic diseases and promote mental health while improving access to work, education, and recreation. Importantly, these more-sustainable modes of transportation can support the imperative of climate change mitigation while also promoting health.

The current burden of injuries and deaths due to road crashes carries an estimated cost of \$492 million per year in BC;¹ the human cost of lives lost and altered cannot be assigned a dollar value. Health care related to road crashes is delivered in medical specialties including emergency medicine, family medicine, and orthopaedics. Likewise, physicians practising in the separate day-to-day worlds of public health and trauma surgery recently advocated to Vancouver City Council in favor of a motion to reduce local speeds, which passed unanimously. Just as the medical community advocated with others for seatbelt laws

a generation ago, we can work together today for safe transportation. ■

—Michael Schwandt, MD, MPH, FRCPC

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