

TAX MATTERS FOR DENTISTS

Volume 8, Number 1

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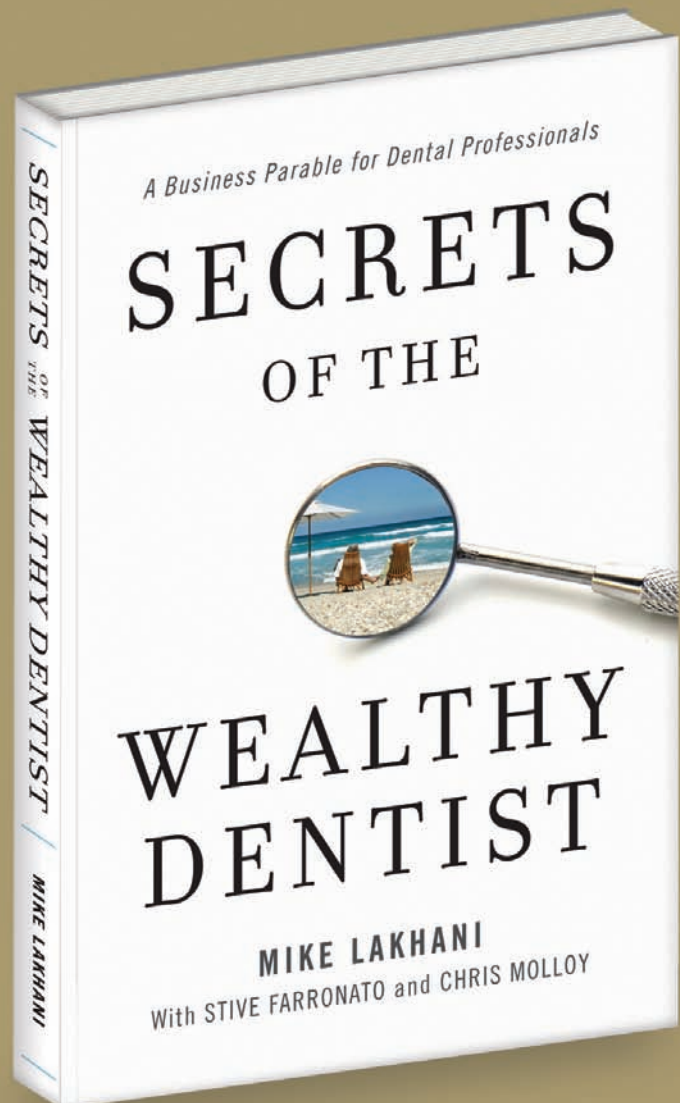
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*Mike Lakhani
and his Team of Specialists.
Tax Advisors to the
Dental Community*



Be well-advised.





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Align Your Practice with Your Life



Let the Lakhani team of advisors and the strategic relationship we have with key professionals help bring about a significant improvement to your lifestyle.

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TAXMATTERS FOR DENTISTS

Tax Advisors to the Dental Community

Here's what some of your peers have to say:



Dr. Murray Arlin, D.D.S., dip. Perio., F.R.C.D.(C)

The team is knowledgeable and competent, as well as being down to earth and friendly. They provide significant benefits to my financial and legal affairs.



Dr. Arthur Johnston, D.D.S.

Mike Lakhani and his team have done an incredible job of analyzing, integrating, and managing my personal and corporate needs, and have made possible a much better bottom line than I have ever enjoyed before.



Dr. Sara Syed, B.Sc. (Hons), D.M.D.

Prior to working with the Lakhani team, I had to rely on multiple specialists and it consumed a lot of my time. Now, Mike and his team serve as a kind of CFO for my business and personal finances. Their integrated service frees up my time to do the things I really enjoy, such as practicing dentistry and spending time with my family.



Dr. Leny Sferlazza, D.D.S., M.A.G.D.

Mike Lakhani and his extraordinarily proficient team have been extremely helpful with my professional and personal finances. From forming a corporation for my dental practice to estate planning, the process has been thorough and comprehensive. The strategies have greatly reduced my taxes and increased my retirement savings.



Dr. J.K. Mistry, D.M.D., B.Sc.

Mike is very knowledgeable, and it is comforting to know he has a team of reliable experts to help with my accounting, financial tax planning, and investment needs. He understands the dental profession, the dental office processes. I was able to minimize my taxes and have real tax savings added to my bottom line.



Mike Lakhani,
B.Comm., F.C.C.A.,
C.G.A., CFP, R.F.P.

“Secrets of the Wealthy Dentist”

Our new book, “Secrets of the Wealthy Dentist”, is finally published! We had a successful launch on November 17th with a group of existing clients and a large group of other dentists wanting to learn more about the book and our team.

The idea for writing this book goes back more than two years. As you know, we have been preparing case studies about actual client scenarios and highlighting the benefits of our tax planning techniques in an effort to improve cash flow, build net worth and uncover other ways to keep more of what dentists earn. We received a lot of positive feedback from dentists who read this newsletter and say they can relate to the cases as they see their own situations reflected in them.

In writing the book, we decided to tell a story and expand on our *Tax Matters for Dentists* material. The story is about three dentists at different stages in their lives:

- Dr. Malhotra, a young dental associate in London who gets engaged to a hygienist, Anita, and eventually gets married and buys a practice.
- Dr. Bekker, a mid-career dentist in Toronto who owns a practice, and his struggles to manage the cash flow of the business and his desire to achieve personal objectives, including repaying debt, funding children’s education expenses and planning his retirement.
- Dr. St. Louis, a mature dentist in Ottawa who has done all the right things with our help over the

years, and looks forward to selling her practice and transitioning comfortably into retirement.

Throughout the book, we cover the main planning techniques for each character at all stages with an engaging real life story. For those who enjoy number-crunching, we have included financial projections in separate appendices. Our goal is to provide guidance for structuring and managing your practice finances to achieve personal objectives.

“If there is a central message in this book, it is this: find a trusted advisor or a team who will put your interest before their own.”

If there is a central message in this book, it is this: find a trusted advisor or a team who will put your interest before their own. My experience has shown time and time again that most dentists use advisors in isolation, specifically for one purpose at a time as the need comes up—banks for practice financing, consultants for practice management, investment brokers for building a portfolio, insurance agents for risk management,

lawyers for estate planning, and accountants for tax preparation.

While all of these functions are necessary, the dentist is often left to coordinate the activities of these experts all on his or her own while running a practice at the same time. We see tens of thousands of dollars slip away when these efforts are not coordinated properly. The solution is to use the services of a quarterback or a trusted advisor who sits on the same side of the table as you to work with all these experts, which can result in significant cash flow improvement and much less stress for the dental practitioner. This is where we can make a big difference to help our clients.

Another big mistake we see often is dentists spending time on investments like real estate or picking “hot” stocks instead of first getting their practice operating at an efficient level. Your practice is, by far, your biggest money maker and I do not know of any investment that comes even close. A well-run practice operates at 50% of gross billings, resulting in a substantial bottom line to look after your personal needs and savings. How many investments do you know that will give you a 50% return? This is why we say focus on the practice first before spending time on other areas. You may know the story about the farmer who goes all over the world looking for diamonds and then finds an acre of diamonds in his own backyard. Your practice is your acre of diamonds.

Investments are an important piece of your net worth. While most often talked about at dinner parties or with your peers, investing continues to be widely misunderstood, often made with irrational decisions and huge risks. Emotion, non-stop media noise, claims about the ability to beat markets, and opinions from friends and family are big distractions for most people.

Without trying to speculate, it is important to adhere to a well-structured and personalized investment policy that controls the risk you can tolerate using global diversification, tax allocation

and a low-cost index-based approach goes a long way building your investments and giving you the peace of mind you need.

I want to thank and acknowledge my partners and co-authors of this book, Stive Farronato and Chris Molloy. Stive and Chris worked tirelessly on the book, using the actual cases they see every day, so that the book captures the unique challenges faced by dentists like you.

We focus on three main things – improving cash flow, reducing taxes and building net worth. Together, we can help you Align Your Practice with Your Life. Please contact Rose Rago at our office at 905-273-6605 for a complimentary initial assessment.

Mike Lakhani, B.Comm, F.C.C.A., C.G.A., CFP, RFP is Vice President, Senior Financial Advisor with Assante Financial Management Ltd. Mike has over 20 years experience as a financial advisor working in the Mississauga area. Mike specializes in tax, estate and investment planning for the dental profession. You can contact him at 905-273-6605 or via email at mlakhani@assante.com

Tax Matters for Dentists

Keep More of What You Earn

A Special Offer from **Mike Lakhani** B.Comm., F.C.C.A., C.G.A., CFP, R.F.P. and his team of specialists to

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Fee: \$2,500 (Tax Deductible, deposit of \$1,250 and balance on delivery of the Tax Saver Plan)

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- Preparation and filing of Personal/Family Tax Returns
- Assistance in implementation of Personal Financial Plan

Annual Fee: \$5,000 (Tax Deductible, \$2,500 will be credited to the first year Fee if Tax Saver Plan above used)

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Tax Saver Plan and Complete Annual Tax Implementation Plan are provided through ITCC Tax & Accounting Inc.



Chris Molloy, CFP

Dr. Waxman Uses Whole Life “Living Benefits” to Increase Retirement Income

Now that incorporation has been available in Ontario for almost ten years, many dentists have accumulated substantial savings within their Professional Corporations. Dr. Waxman had saved over \$600,000 in his company when we first met. At 43 years of age, he was also looking ahead to solidifying retirement plans and saving taxes.

Problem

Given the current investment climate (highly volatile equity markets and historic low fixed income yield), he was looking for investments with lower volatility and more modest yields. Dr. Waxman ideally wanted lower risk bonds and fixed income investments for his corporate assets, however, with interest income taxed at the top rate inside a corporation (47%) fixed income investments were a deterrent to growth.

Opportunity

A portion of Dr. Waxman’s investment portfolio and long-term retirement strategy, investment in a participating Whole Life (“WL”) insurance policy could satisfy his requirements.

Why Invest In Life Insurance?

1. Tax-sheltered growth
2. Access to yield not available with any other investments
3. Tax-advantaged retirement income stream
4. Asset protection (in certain circumstances)
5. Estate planning

Dr. Waxman was a very good candidate for this strategy because he was an investor seeking a conservative long term tax-sheltered yield, he was insurable, and he had:

1. Maximized contributions to RRSP, IPP and TFSA
2. Excess cash flow available for investment
3. No non-deductible debt

4. Non-registered investment assets (including corporate savings)
5. No imminent liquidity need for the capital

“Living benefits often motivate affluent Canadians to purchase life insurance when they do not have a traditional need for life insurance.”

Traditionally, life insurance is purchased to provide capital to support the surviving family or to fund estate expenses such as income taxes. These are sometimes referred to as “mortality” or “estate” benefits.

However, in addition to mortality coverage, WL insurance provides other benefits, one of the most significant of which is the tax-free compounding on investment income. This type of benefit is often referred to as a “living” benefit. Living benefits often motivate affluent Canadians to purchase life insurance when they do not have a traditional need (“mortality coverage”) for life insurance.

In a simplistic scenario, an individual or corporation would make premium payments into an insurance policy (effectively overfunding the policy) and have the funds compound tax-free for the duration of the policy. In a nutshell, life insurance as an investment is beneficial if the tax-sheltered growth provided by the policy results in a better yield than can be achieved with a taxable investment of comparable risk. (Regardless of whether cash is invested inside or outside of a policy, accumulation of wealth inside a corporation may limit the ability to sell shares or qualify for the Capital Gains Exemption.)

Participating Whole Life

Whole Life has fixed premium levels and is a managed investment solution (i.e. there are no investment options). The historic internal rate of return on a typical WL product would range between 3% to 5%, depending upon the individual's age, health status and life expectancy.

This level of return is not surprising given the typical asset mix of the various participating WL designs. The mix varies, however, it is generally a blend of fixed income and equity. The London Life participating WL fund asset mix is approximately 80% bonds, 20% equities whereas Sun Life's par fund mix is a blend of 65% bonds and 35% equities. This low risk asset allocation provides a consistent return with low volatility.

Solution

For Dr. Waxman, a Whole Life solution was recommended for corporate savings. The illustration was based upon:

- Male age 43 with a standard health rating
- London Life 20 Pay Par policy with a face value of \$2.8M
- Assumed premium level of \$100,000 for 6 years. This assumes London Life's current dividend scale is maintained.¹

This example solution compares life insurance to a taxable fixed income alternative earning 4% using the highest Ontario corporate marginal tax rate.

Result

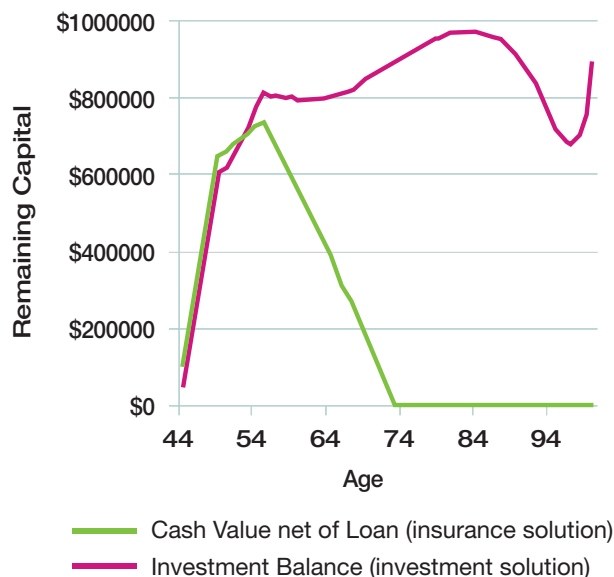
By Dr. Waxman's desired retirement at age 56, the insurance cash value was projected to be \$861,000 compared to an investment account at \$734,000. Using the policy as collateral, there was a significant difference in the ability to generate an income.

1. Leveraged Insurance² vs. Taxable Investment earning 4% Before Tax.
 - a. Life Insurance - \$50,000 per year for life (to age 100), plus a residual death benefit of no less than approximately \$900,000.
 - b. Taxable Investment - \$50,000 per year exhausted at age 73. No residual death benefits as all funds would be used up.

With this strategy, Dr. Waxman's Professional Corporation could receive tax-free income by leveraging against the policy in the amount of \$50,000 per year. Total payments could exceed \$2,200,000 over his lifetime.

This is substantially more than the \$900,000 from the taxable investment, which would be exhausted by age 73. This advantage is largely a result of the tax-free compounded growth within the policy and the ability to leverage against the death benefit.

Leveraged Insurance vs. Taxable Investment



Risks/Cautions

Any investment in life insurance needs to be considered as part of an individual's overall investment mix and should be considered as a long term reallocation of low risk capital like bonds and GIC's.

Given the long term nature of the investment, any investment needs to allow individuals the flexibility to change their minds.

Insurance investment yields are not guaranteed, tax rules could change, tax-exempt nature of life insurance could be removed, counter-party risk that the insurance company could default on future payments, liquidity, etc. all need to be reviewed prior to making any investment decisions.

Summary

An investment in life insurance provides an individual with a 100% tax-sheltered investment. The WL solution comes with low costs and investment yields that are only available within a participating WL design. It can provide a tax-advantaged source of retirement income.

If you would like to review whether or not life insurance has a place in your portfolio, please contact our office.

References

1. The London Life Par Fund has existed for over 100 years and has always paid a dividend. The dividend could be reduced if interest rates continue at low levels.
2. Cost of funds assumed to be 7% with full tax-deductibility. Note to be deductible, interest has to be incurred to earn investment income therefore a debt-flip will be needed to achieve this result. Strategy could be implemented without tax-deductible interest costs, however, benefit will be reduced.

Chris Molloy, CFP, is a Financial Planning Advisor with Assante Financial Management Ltd. Chris has over 15 years experience as a financial advisor working in the Mississauga area. Chris specializes in tax, estate and investment planning for the dental profession. You can contact him at 905-273-6605 or via email at cmolloy@assante.com.



David A. Altro

Issues that Canadians face when buying U.S. Property

Many Canadian clients contact our Cross Border Experts at Altro & Associates every day, looking for the perfect structure to buy real estate investment/vacation properties in the United States. With all of the distressed property in the U.S., there is no better time for savvy Canadian investors to purchase American real estate. However, Canadians need to be aware of some issues that could trip up probable investors.

The first issue that Canadians need to be aware of is U.S. Probate. Probate is the legal procedure to settle the property of the deceased. Probate will have to be conducted in the U.S. even if your estate is already probated in Canada. Probate is expensive and time consuming. A Florida attorney is allowed by statute to charge 3% of the fair market value of your U.S. assets as a probate fee.

The second issue that Canadians need to be aware of is incapacity. If a property is held in the names of two or more people (such as husband and wife) and one person becomes incapacitated, the property will effectively be frozen. A costly and time consuming guardianship procedure will need to be undertaken to free the property.

Buying a property in your name or your children's names may expose the property to creditors should you or your children happen to run into such problems. (i.e. a negligence action against you brought by a tenant of your leased property). Further, if you decide to bequeath the property to your children upon your death and they get divorced, their ex-spouse may have a claim for their share of the property, not to mention U.S. Gift Tax issues.

U.S. Estate Tax is another issue of concern to the Canadian buyer. There will be a U.S. Estate Tax upon the death of a Canadian if the Canadian owns more than \$60,000 of U.S. Assets and has a worldwide net worth of over \$5,000,000. The 35% U.S. Estate Tax is on the total value of all U.S. assets. In 2013, the U.S. Estate Tax law is scheduled to reduce the exemption on worldwide assets from \$5,000,000 to \$1,000,000 and the Estate Tax rate will increase from 35% to 55%.

A very efficient strategy to address all of these problems is the specially crafted Cross Border TrustSM. A Cross Border TrustSM speaks to both the Canadian and the U.S. regimes so it can help avoid the issues of probate,

incapacity, and provide creditor and divorce protection for your children. Depending on your family situation, the value of your U.S. and worldwide assets, a enhanced version of the Cross Border TrustSM (called a Cross Border Irrevocable TrustSM) can even eliminate the U.S. Estate Tax altogether. It's important to discuss all the relevant facts with one of our Cross Border experts beforehand so they can help determine which structure is best for you.

“A Cross Border TrustSM speaks to both the Canadian and the U.S. regimes so it can help avoid the issues of probate, incapacity, and provide creditor and divorce protection for your children.”

Another potential solution is purchasing your property in a corporation. This will avoid the problems of probate, incapacity and may provide you with some degree of liability protection. However, we often prefer the Cross Border TrustSM because it is a maintenance free vehicle, unlike a corporation. It is important to note that any capital gains are taxed at a rate of 15% for a Cross Border TrustSM compared to a capital gains tax rate of 40.5% (in Florida) for a corporation. It should be noted that there are some situations where a corporation is the best solution for our client—specifically, if all of the client's funds are in a corporate structure. A consultation with a Cross Border Expert will help determine which plan is best suited for you and your investments.

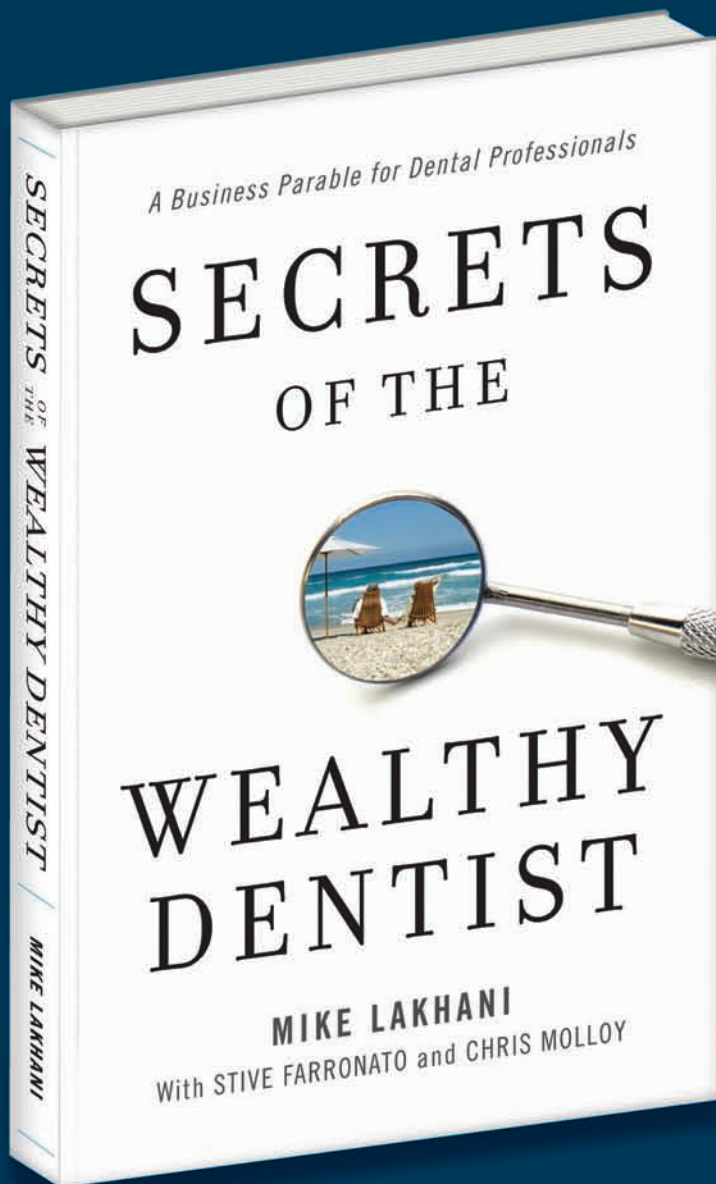
The above are just a few of the pitfalls that can trap unsuspecting Canadians. Canadians should always seek advice from qualified tax and estate Cross Border Specialists.

David A. Altro is a Florida attorney and Quebec notary. He is the managing partner at Altro & Associates, LLP. Mr. Altro's practice primarily focuses on cross border tax, estate planning and real estate for high net worth individuals.

Keep More of What You Earn!

Align Your Practice with Your Life

Share in the secrets that some of your peers have known and used successfully for years. Here's what they say:



Every dentist who cares about their financial health should read this book. When it comes to financial planning, most of us procrastinate even though we know we shouldn't. This book helps demystify the planning process to give you the jump start you need. *Secrets of the Wealthy Dentist* takes into account that we're dentists, not accountants, by combining facts and numbers with a compelling story to create an easy and enjoyable read.

Dr. Murray Arlin, DDS, dip. Perio., F.R.C.D.(C)



You learned how to be an excellent dentist in dental school but not how to profitably run a practice or manage your finances. This book spells it all out. *Secrets of the Wealthy Dentist* is an easy-to-understand guide full of valuable financial planning strategies, tips and solutions.

Dr. Roger P. Levin, DDS Chairman & CEO, Levin Group, Inc.



This compelling story of three dentists reminds all of us in the dental profession that we're not alone. The financial challenges we face can't be handled in isolation. As this parable so vividly illustrates, there's no shame in seeking out a group of trusted advisors to help us through the maze of decisions that confront us.

Dr. Arthur Johnston, DDS

Secrets of the Wealthy Dentist may be purchased online for \$29.95 plus tax & shipping at: www.secretsofthewealthydentist.com

Secrets of the Wealthy Dentist is also available in E-Book from www.amazon.com

Discover Secrets Well Worth Knowing!

For a free copy of this book plus a complimentary initial one-hour consultation with Mike Lakhani, Stive Farronato and Chris Molloy, call Rose Rago at 905-273-6605 or e-mail: info@ddstaxes.com

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