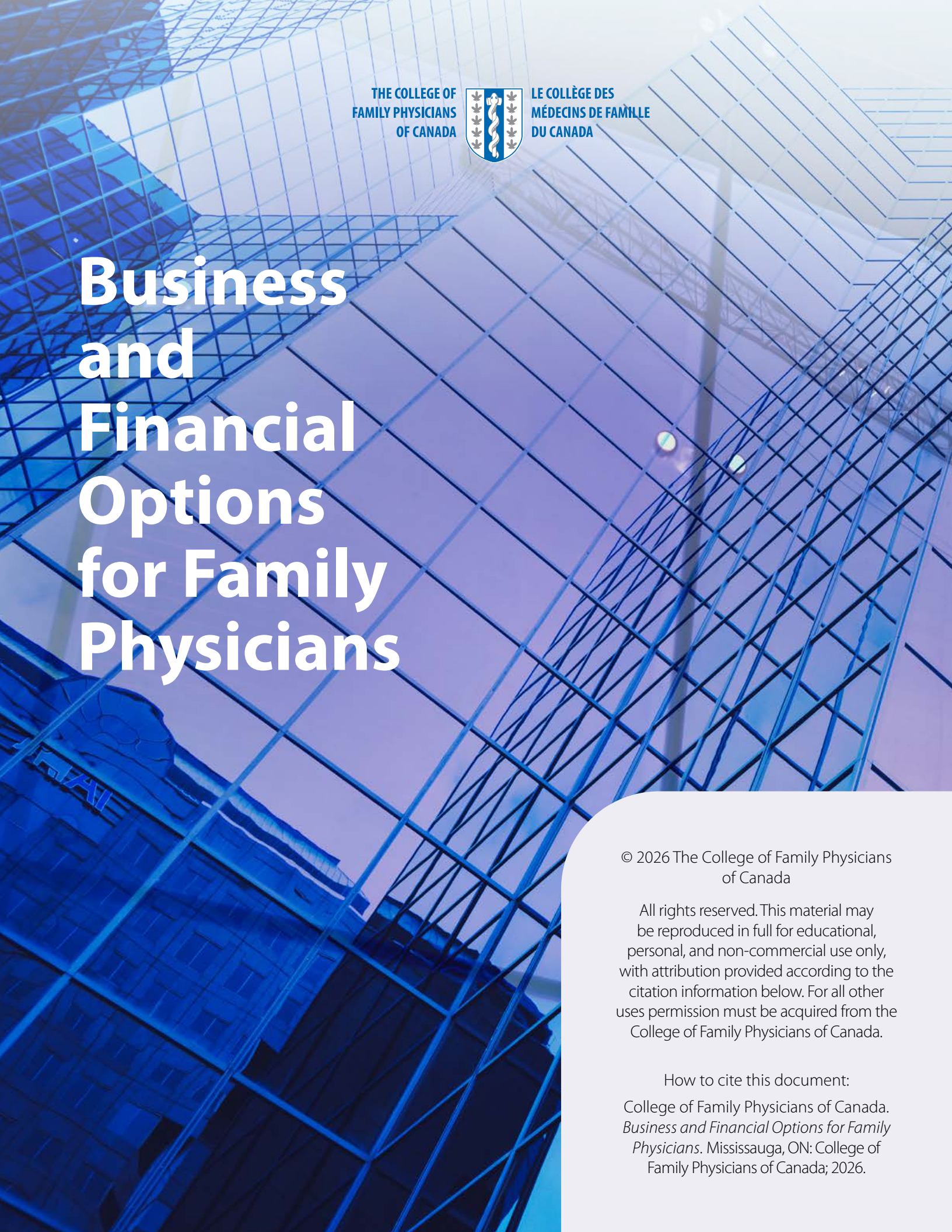


THE COLLEGE OF FAMILY PHYSICIANS OF CANADA

LE COLLÈGE DES MÉDECINS DE FAMILLE DU CANADA

# Business and Financial Options for Family Physicians

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How to cite this document:

College of Family Physicians of Canada. *Business and Financial Options for Family Physicians*. Mississauga, ON: College of Family Physicians of Canada; 2026.

Being a family physician comes with complex financial needs. This document provides high-level guidance on the benefits and trade-offs of incorporation, as well as advice on retirement planning. Saving for retirement is the individual physician's responsibility, and diversifying the tools discussed in this paper can be an effective strategy to support long-term financial security. We encourage you to speak with your financial adviser to find the best course that meets your individual financial needs.

The three most common ways of doing business as a physician in Canada are as a medical professional corporation, a partnership with other physicians, or as a sole proprietor. In Canada, the earnings of family physicians are subject to personal income tax (levied on income using a progressive rate structure), corporate tax (applied only if the physician has business or corporate profits), and sales tax.[1] The amount and type of tax paid depends on the physician's provinces/territories and type of practice.

1. Medical professional corporation (MPC): The family physician starts a specialized type of business, and the business is a separate legal entity from the physician's personal finances. The business owns practice assets, earns revenue, and pays its own corporate taxes.[2]
    - The corporation files its own tax return and pays the corporate tax rate. This combines the federal rate of 9 per cent with the provincial rate, which can range from 0 per cent to 3.2 per cent.[3,*]
2. Partnership with other physicians: The physician creates a partnership agreement with other physicians, detailing how expenses, revenues, and responsibilities will be shared.
    - Pro: Each partner in the agreement is responsible for their own personal income tax return. The physician may be taxed at 50 per cent on their share of revenues.[1]
    - Con: Becoming a partner often comes with financial risk and exposure to malpractice liability of their whole physician group.[4]
3. Sole proprietor: The income earned by the physician is considered self-employment (business) income.
    - Pro: The physician has full control over their practice, allowing for the maximum amount of autonomy.[5]
    - Con: The physician reports their income on their personal tax return and is responsible for paying their own income taxes and Canada Pension Plan contributions. They are assessed based on their personal tax bracket, and income over $259,000 may be taxed at 44.5 per cent to 51 per cent.[1,†]

## Pros and cons of incorporating (MPC)

| Advantages | Disadvantages |
|---|---|
| • **Keep more** of what you earn by benefiting from lower corporate tax rates on active business income, creating opportunities to defer personal taxes and invest retained earnings for future growth<br>• **Income splitting opportunities** can lower total household taxes by shifting practice or investment revenue to a lower earning family member (subject to tax regulation)[6]<br>• **Reliable retirement income** through long-term tax deferral strategies and optimized retirement income distribution[1,7]<br>• **Additional financing options** that may only be available to corporations<br>• **Protection against creditors** – in the event of a claim, the scope may be limited to assets held within the corporation rather than personal assets[8] | • **Set-up and maintenance fees:** Initial incorporation costs and ongoing professional fees can be significant. In addition to annual corporate tax filings, physicians may incur expenses related to accounting, bookkeeping, legal services, and regulatory compliance. Costs could increase as the corporation's affairs become more complex.[9]<br>• **Administration:** The administrative requirements of an MPC are more significant than a sole proprietorship[4]<br>• **Loss of liquidity:** A portion of earnings must remain inside the MPC to realize the tax-deferral benefits[4] |

*Assumes small business tax rate.

†This is an estimated amount of tax payable. The actual amount will vary depending on the individual's province/territory and personal tax situation.



## Compensation Strategy: Salary or dividends?

Incorporated medical professionals can take compensation in the form of salary, dividends, or a combination of the two.[10] Each comes with distinct advantages and drawbacks and affects retirement planning.

**Salary**: Salary is a fixed, recurring payment made by your corporation to you as an employee.

| Advantages | Disadvantages |
|---|---|
| • **Supports retirement planning** through RRSP contribution room and CPP/QPP benefit accumulation[6,11]<br>• **Predictable** cash flow and tax planning through regular income[6]<br>• **May improve borrowing** capacity, as lenders often favour stable, recurring employment income[6]<br>• **Deductible corporate expenses**, helping reduce taxable income and corporate taxes | • **Reduces corporate cash** available for investment and tax deferral<br>• Subject to payroll deductions[6,12]<br>• Subject to **a higher personal income tax rate**<br>• Requires **payroll administration and compliance obligations** |

**Dividends:** Ideal for mid- to late-career physicians; dividends are payments from a corporation's after-tax profits to its shareholders.

| Advantages | Disadvantages |
|---|---|
| • **No payroll deductions**[6]<br>• **Taxed at a lower personal rate** than salary[6]<br>• **Greater flexibility** as dividends can be paid at any time and in any amount, as long as the amount withdrawn is not greater than the corporation's after-tax earnings[6,13,14] | • **May limit retirement savings opportunities**, as dividends do not create RRSP contribution room and do not contribute to CPP/QPP benefit accumulation<br>• **Not deductible to the corporation,** resulting in higher taxable income and potentially higher corporate taxes |

Many mid- to late-career physicians use a combination of salary and dividends. By retaining some earnings in the corporation, they may benefit from lower corporate tax rates on active business income, leaving more funds available for investment. Although passive investment income is taxed at higher corporate rates, part of this tax may be refunded when dividends are paid to shareholders.[15] This mechanism is intended to support the principle of tax integration and reduce the potential for double taxation.[8,16]

## Capital Gains

Capital gains arise when an asset, such as real estate, is sold for more than it's adjusted cost base.[17] Capital gains are generally taxed more favourably than interest income because only a portion of the gain is included in taxable income. Family physicians often accumulate investment assets personally or within an MPC as part of their long-term wealth and retirement planning. Understanding how capital gains are taxed can help improve after-tax investment returns. Some strategies to consider are:

1. **Use tax-advantaged accounts:** Holding investments within registered plans, such as a tax-free savings account (TFSA) or an RRSP, can help reduce or defer taxes on investment growth.[2]
2. **Focus on tax-efficient investing**: Investments that generate capital gains may be more tax-efficient than those producing interest income, depending on your circumstances.[2]
3. **Capital gains may provide additional planning opportunities for incorporated physicians**. In addition to the favourable tax treatment of capital gains, the non-taxable portion of a capital gain may be credited to the corporation's Capital Dividend Account. This balance can generally be paid to shareholders as a tax-free capital dividend, improving the after-tax value of investment growth within the corporation.

### Public policy developments

In 2024 the federal government proposed increasing the capital gains inclusion rate from 50 per cent to 66.67 per cent. The CFPC advocated on behalf of family physicians to reduce the financial burden this change would have imposed on family physicians, helping to persuade the federal government to reverse course.[18]

## Retirement Planning

Physicians in Canada have three main registered pension plans to choose from: multi-employer defined benefit plans (MEPP), individual pension plans (IPP), and personal retirement savings.

**MEPPs:** A group pension plan sponsored by the participating employers. Each year, the corporation and employee contribute a certain amount to the pension, and retirement benefits are determined by a predefined formula.

| Advantages | Disadvantages |
|---|---|
| • **Predictable retirement income,** as pension benefits are based on a formula rather than investment performance alone<br>• **Secure retirement income through** professional investment management, pooled assets, and institutional oversight[19]<br>• **Potentially higher retirement savings capacity** than some RRSPs, depending on age and earnings<br>• **Reduced individual investment responsibility** as investment decisions and administration are managed by the pension plan | • **Limited flexibility,** as contribution requirements and benefit structures are determined by the plan<br>• **Contribution requirements may increase** if additional funding is needed to support pension obligations[8]<br>• **Less control over investment decisions** compared with personal investing or corporate investment accounts<br>• **Potentially lower estate value**, since pension benefits may not leave the same residual assets to heirs as individually owned investments<br>• **Maximum pension contribution limit** each year based on the defined benefit[8,20] |

**IPPs:** Like the MEPP, an IPP is a defined benefit pension plan established and funded by your medical professional corporation for the benefit of a single member, typically the physician. It is recommended for physicians who are losing access to low corporate tax rates (through earning more than $50,000 in passive income, or if the corporation's total capital exceeds $10 million).[21]

| Advantages | Disadvantages |
|---|---|
| • **Higher contribution limits** than an RRSP for many physicians, particularly at older ages, allowing more tax-advantaged retirement savings[8,22,23]<br>• **Tax-deductible corporate contributions,** which can reduce the corporation's taxable income<br>• **Predictable retirement planning** through a defined benefit structure<br>• **Creditor protection,** depending on provincial/territorial legislation and plan design<br>• **Additional funding opportunities** may arise in certain circumstances, such as past-service contributions and actuarial funding adjustments | • **Reduced flexibility**, as pension assets are subject to pension legislation and withdrawal restrictions[12]<br>• **Higher set-up and maintenance costs** than an RRSP, including actuarial valuations and regulatory filings (often more than $1,500 per year)[12]<br>• **Reduces RRSP contribution room** and limits the ability to contribute to a spousal RRSP (full income splitting)[12]<br>• **Requires salary income**<br>• **Administrative complexity,** including ongoing compliance, recordkeeping, and professional oversight |

### Personal registered savings accounts

Personal retirement savings include registered investment accounts, such as RRSPs and TFSAs. These investment accounts allow physicians to save more money and lower their taxes.[24] Although there are commonalities, these accounts serve different functions depending on career stage and income level. Physicians can use both accounts to build wealth and improve tax efficiency over time.

**RRSP:** Primarily designed to support retirement savings through tax-deductible contributions and tax-deferred growth.

| Advantages | Disadvantages |
|---|---|
| • **Tax-deferred growth** within the RRSP<br>• **Unused contribution room can be carried forward indefinitely,** providing flexibility to contribute when it is most tax efficient[13]<br>• **Tax deductible contributions**, which may reduce taxable income[13]<br>• **Withdraw funds tax-free for certain purposes** through the Home Buyers' Plan and Lifelong Learning Plan, subject to repayment requirements[13]<br>• **Pay down other debt** with the tax refunds gained from contributing to the RRSP[13] | • **Withdrawals are fully taxable as income** and may affect benefits, such as Old Age Security[13,25]<br>• **Contribution room requires earned income,** making RRSPs less beneficial for physicians compensated primarily through dividends<br>• **Less flexibility than a TFSA**, as withdrawn amounts do not create new contribution room |

**TFSA:** TFSAs offer tax-free investment growth and flexible access to funds.

| Advantages | Disadvantages |
|---|---|
| • **Withdraw money at any time** to help you achieve multiple investment goals[13]<br>• Interest income and capital gains are **not subject to taxation at the time of withdrawal**[13,26]<br>• **Contribution room resets annually** – Any amount withdrawn will be added back into your contribution room the following calendar year[13]<br>• Can be funded regardless of whether income is received as **salary or dividends** | • **Contributions are not tax-deductible**[13]<br>• **Lower annual contribution limits** than those available through many pension plans and RRSPs |

When considering your savings choices, it is important to note that there is not one absolute answer that fits everyone's situation. There are many considerations that may make one savings account (or combination of accounts) suitable for you. For a more detailed list of options and considerations of this topic please refer to the following resources:

Report to the Canadian Medical Association on Potential Retirement Savings Options for Canadian Physicians (2019)

MD Financial - Your guide to retirement planning (2022)

Acknowledgements

**Subject matter expert group**

Dr. Jean-Pierre Arseneau, Dr. Victor Ng, Tiffany St. Denis (MD Financial Management), and Kevin Ramsubhag (Scotiabank).

**Volunteer reviewers**

Dr. Baijayanta Mukhopadhyay, Dr. Mayura Loganathan, Dr. Shveta Suryavanshi, and Dr. Phil Drijber.

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Derek Law
(Manager of Economics and Data, Doctors of Nova Scotia)

Alberta Medical Association

Doctors of British Columbia

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