



Medical professionals: are you a sole proprietor?

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Some medical professionals who have not (yet) set up a professional corporation may be surprised to hear that they are considered to be an independent contractor. An independent contractor is someone who is self-employed and carrying on a business (often referred to as a sole proprietor.)

Employee vs. independent contractor?

If you, as a medical professional, have entered into a contract of service, then the Canada Revenue Agency (CRA) will generally consider you to be an employee earning employment income. If instead you have entered into a contract for services, then the CRA will generally consider you to be an independent contractor and in a business relationship earning professional income, and not an employee for tax purposes. In this article, we will assume you are an independent contractor, and are considered to earn professional income as a sole proprietor.¹

Let's review how your sole proprietorship will be treated for tax purposes.

How is the professional income of a sole proprietor taxed?

The CRA defines a business as an activity that you intend to carry on for profit where there is evidence to support that intention.² Note that a business does not need to be carried on inside a corporation. A business can include providing professional services such as those carried on by you as a medical practitioner. As such, calculating the professional income will be similar to calculating other business income.

For income tax purposes, you calculate your net professional income (or loss) by totaling the income from your professional fees and deducting eligible expenses. Professional income is reported on your T1 personal tax return. Net professional income is added to your other taxable income, such as net income from investments, to determine the total amount of your taxable income.³

Many expenses that are deductible for accounting purposes may also be deducted when calculating taxable income. Amounts paid for membership to provincial or territorial medical associations or colleges of physicians and surgeons are generally tax deductible, as are union dues such as those paid to provincial residency associations. This also applies to professional or malpractice liability insurance premiums, and fees paid for external accounting fees. If you run your own practice, you may also be able to deduct other costs such as rent, utilities or the salaries paid to nurses or assistants.

Tax is levied on your net taxable income, including the professional income, at combined federal/provincial marginal tax rates ranging from about 20% to 54% in 2023, depending on your province or territory of residence.

¹ Further information on how to determine if one is an employee or self-employed can be found in the CRA publication RC4110 "Employee or Self-employed?" which can be found online at canada.ca/en/revenue-agency/services/forms-publications/publications/rc4110/employee-self-employed.html#mpl_slf_mpld_wrkr.

² For further information, refer to CRA Publication "T4002 Self-employed Business, Professional, Commission, Farming, and Fishing Income 2020", which is available online at canada.ca/en/revenue-agency/services/forms-publications/publications/t4002/t4002-3.html.

³ In the event that there is a loss, losses from a professional business can be deducted against all sources of income in the current year or may be carried back or forward.

Keeping it separate

You are required to keep proper records to support your income and expenses reported. When you earn professional income personally, professional and personal expenses may become commingled. It is important to be able to clearly separate which charges are for professional purposes, since these can be deducted when completing your tax return, and which charges are non-deductible personal expenses. If your professional and personal charges are commingled in the same account, it can cause problems later on when they have to be sorted out.

One of the easiest and best ways to distinguish professional from personal expenses is to have two separate bank accounts: a personal account and a business banking account. It's also a good idea to have two credit cards, one for personal spending and the other for professional use.

While banks will require separate bank and credit accounts for a corporation since it has its own legal identity, it's just as important for sole proprietors to separate their accounts, and many banks do not allow businesses to operate through personal accounts. Having a separate bank account and credit card for your professional services business will make tax time a lot easier when it comes to segregating professional and personal expenses. It can also come in handy in the case of a CRA business expense audit down the road.

Conclusion

The taxation of professional income, including a medical practice operated as a sole proprietorship, can be complex and these are just a few of the tax matters to be considered. Be sure to consult with appropriate advisors, including tax and legal professionals, both prior to setting up your practice, and on a regular basis.

Your CIBC financial advisor can help you to understand the financial solutions that are available for your practice.

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