May 21, 2024

Hon. Chrystia Freeland, P.C., M.P.
Deputy Prime Minister and Minister of Finance
House of Commons
Ottawa, Ontario, K1A 0A6
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Re: Medical Associations across Canada urge the government to reconsider the proposed increase to the capital gains inclusion rate.

Dear Deputy Prime Minister Freeland,

On behalf of Canada’s doctors, we are writing to express our concerns regarding the proposed capital gains tax changes announced on April 16, 2024, particularly as it pertains to physicians and their medical professional corporations.

The proposed changes to increase the capital gains inclusion rate for corporations and individuals, specifically impacting all capital gains realized within a medical professional corporation, are alarming. If implemented, these changes will undoubtedly add undue pressure and financial strain, threatening the wellbeing of physicians and undermining the stability of our healthcare system as a whole.

Medical professional corporations differ significantly from conventional corporations and other professional corporations. Due to the current physician shortage, and in particular the shortage of family physicians, it is extremely difficult if not impossible for a physician to find a purchaser for the shares of their medical professional corporation which negates the possibility of being able to use the lifetime capital gains exemption.

The value of physician medical practices is often limited, with most offices possessing assets valued at less than $10,000 consisting primarily of deprecating items like supplies, otoscopes, beds and furniture. Even in the unlikely scenario that shares of a medical professional corporation can be sold, one of the important tests (of many) that needs to be met in order to qualify for the lifetime capital gains exemption is that at least 90% of the corporation's assets (at the time of sale) would need to be used in the active business operations of the medical practice. However, this is not the reality for community-based specialists, including family physicians, pediatricians, general internists, and psychiatrists, all of whom are essential to our healthcare system.

A physician does not incorporate for the prospect of growing their medical practice for resale, but rather with an intention to save for retirement and for other significant life events such as maternity or parental leave. The fact that most physicians are unable to sell the shares of their medical professional corporations means that physicians are solely reliant on what they can save in their medical professional corporations.

Moreover, self-employed physicians are responsible for covering overhead costs such as rent, staff salaries, all medical supplies and office equipment, often amounting to over 40% of their gross clinical revenue. The funding and provision of this critical infrastructure is not easily replaced. Physicians don’t have the ability to simply increase their fees to make up for tax increases or inflation as it relates to their overhead, as other professionals may be able to do. They work for the public good and their fees are regulated by provincial agreements. In some cases, provisions for incorporation have been part of a negotiated settlement with provincial government.
Compounding these concerns, physicians expend millions of hours annually on unpaid and unnecessary administrative tasks, contributing to burnout and reduced clinical hours.

Due to the absence of employer-sponsored pension plans, health and dental coverage, paid sick leave, parental benefits, or vacation leave, physicians depend on retained earnings (corporate savings) and passive investments in their corporations to accumulate capital for future needs.

Public policy ought to prioritize fostering economic growth, innovation, and enhancing the quality of life for all Canadians. Flourishing medical practices play a pivotal role in ensuring Canadians have access to medical care precisely when and where they need it. In a recent survey conducted by Abacus Data, 61% of Canadians said they would like to see government reverse the proposed tax change in some form, including exempt healthcare providers who run community-based clinics.

Given the pivotal role physicians play in ensuring the health and wellbeing of Canadians, it is imperative that the government considers the long-term implications of these proposed changes. Over 50% of physicians in Canada incorporate their practices as a means of efficiently managing their operations and planning for retirement. The recent tax proposals, coupled with tax revisions affecting professional corporations announced in 2017, carry significant financial ramifications for physicians. Despite advocacy efforts in 2017 to underscore the risks posed by the removal of income splitting and tighter restrictions on accessing the small business tax rate, the government largely disregarded the concerns raised by Canada’s doctors, and as a result, it is now evident that maintaining a sustainable community-based practice is more challenging than ever.

To address these pressing concerns, we strongly urge the government to reconsider the proposed capital gains tax adjustments.

Specifically, we recommend:

- A full repeal or exemption of the increased capital gains inclusion rate for medical professional corporations.
- If a full repeal or exemption is not possible, at minimum we propose the introduction of tax measures allowing individual taxpayers to share the $250,000 capital gains threshold (at which the higher capital gains inclusion rate of two thirds would begin to apply) with medical professional corporations they control, with yearly indexing of the threshold to account for inflation.

For purposes of implementing either of the above noted recommendations we would be willing to collaborate with the Department of Finance to introduce a definition for a “medical professional corporation”, for example, to mean a corporation that carries on or previously carried on the professional practice of a medical doctor; and which also recognizes the other corporate entities established as part of the medical practice structure.

Overall, by implementing the above noted recommendations, the government can demonstrate its commitment to supporting the medical community and ensuring fair compensation for healthcare professionals.

Incorporated physicians are deeply concerned about the proposed capital gains adjustments, especially with the imminent effective date. Thousands of healthcare providers are anxious about the potential short, medium, and long-term implications. We welcome any transparency regarding the government's readiness to collaborate with physicians to ensure that the proposal achieves the appropriate balance.
Thank you for your attention to this matter. We remain hopeful that our concerns will be taken into consideration, given the urgency of stabilizing community-based medical care, and need to ensure a sustainable healthcare system for Canadians.

We welcome a joint meeting to discuss these challenges in detail.

Yours sincerely,

Dr. Kathleen Ross
President, Canadian Medical Association

Dr. Alex Kmet
President, Yukon Medical Association

Dr. Ahmer Karimuddin
President, Doctors of BC

Dr. Paul Parks
President, Alberta Medical Association

Dr. Andre Grobler
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Dr. Randolph Guzman
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Dr. Dominik Nowak
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Dr. Paula Keating
President, New Brunswick Medical Society

Dr. Colin Audain
President, Doctors Nova Scotia

Dr. Gerard Farrell
President, Newfoundland and Labrador Medical Association

Cc: Hon. Mark Holland, Minister of Health of Canada
Hon. Rechie Valdez, Minister of Small Business of Canada