

# OMA response to Capital Gains Inclusion Rate and Lifetime Capital Gains Exemption Consultation

**Submission to the Department of Finance Canada**

Sept. 3, 2024



Doctors in Ontario are deeply disappointed with the recent draft legislation posted by the Minister of Finance and the decision to proceed with the egregious tax increase on doctors, despite reasonable requests for amendments made by ourselves and the Canadian Medical Association.

The most fundamental issue is this: The vast majority of doctors will see their taxes increase on the first dollar of capital gains.

Medical professional corporations will be taxed with new, higher inclusion rate of 66% on the first dollar of capital gains. Physicians in Ontario incorporate their practices to efficiently manage their operations and retirement planning. According to the College of Physicians and Surgeons of Ontario (CPSO), there are currently 24,772 physicians who are part of medical professional corporations representing 70% of all doctors in Ontario. (Current as of July 20, 2024)

Consider this scenario of a physician in a medical professional corporation who realizes a \$100,000 capital gain. They will pay an additional \$9,655 in tax (an increase of their effective tax rate by a third from 28.97% to 38.62%)

	Pre-June 25, 2024	June 25, 2024 + Onwards
<b>Capital gain realized by the corporation</b>	\$100,000	\$100,000
<b>Inclusion rate</b>	50.00%	66.67%
<b>Taxable capital gain</b>	50,000	66,667
<b>Corporate income tax</b>	(9,750)	(13,000)
<b>After-tax funds available</b>	90,250	87,000
<b>Tax-free capital dividend</b>	50,000	33,333
<b>Taxable dividend</b>	40,250	53,667
<b>Personal income tax</b>	(19,215)	(25,620)
<b>Personal after-tax funds received</b>	71,035	61,380
<b><i>Effective income tax rate</i></b>	28.97%	38.62%
<b>Net tax increase</b>		<b>\$9,655</b>

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. The changes to the capital gains tax will have a drastic effect on Ontario's already failing health-care system. Implementing this tax measure will only serve to exacerbate the problem.

2.5 million Ontarians do not have access to a family doctor. Over the past decade, inflation has risen 25.4 percent, while the fees paid by OHIP have not kept pace. Unlike other professionals, physicians do not set their own fees for medically necessary services. They are governed by the OHIP schedule of benefits, as negotiated with the provincial government. We question why the federal government would seek to further squeeze physicians with its proposed capital gains tax increases.

We should be working to retain practicing physicians, not push them into early retirement or out of the community. We need to attract new graduates into practicing medicine instead of deterring them from establishing their careers in Canada.

OMA supports the recommendations and submission of the Canadian Medical Association (CMA) as part of this consultation:

1. A full repeal or exemption of the increased capital gains inclusion rate for medical professional corporations.
2. Alternatively, at minimum, tax measures should be introduced that allow individual taxpayers to share the \$250,000 capital gains threshold (at which point 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.

CMA's submission provides thoughtful recommendations on how the medical professional corporation should be defined. In Ontario, medical professional corporations are easily identifiable because they are registered with the College of Physicians and Surgeons of Ontario. Upon the physician's retirement, the professional corporations are converted to a "holding corporation", therefore the definition would need to capture them to ensure a physician's retirement income is not unduly taxed. As mentioned, 70% of physicians in Ontario are part of a medical professional corporation.

OMA strongly encourages the federal government to exempt physicians from the capital gains tax increase or to include medical professional corporations from the \$250,000 threshold. Failure to do so would only confirm your intention to increase taxes on Ontario's doctors.