



Ontario  
Chiropractic  
Association

**SRJ** chartered professional  
accountants

# Business & Accounting 101 **FOR NEW CHIROPRACTORS**

Do you know the difference between a 'manual back adjustment' and an 'activator back adjustment'? Well then, it is evident that you have just graduated in becoming a chiropractor and are ready to embark on a new journey in your career. On behalf of SRJ Chartered Accountants ("SRJ CAs"), we would like to congratulate you on reaching this important milestone in each of your lives.

As you approach this new and exciting chapter in your lives, the professionals at SRJ Chartered Accountants have created a New Graduate Checklist, specific to the chiropractic industry. Following this list will help ensure a smooth transition into your career by addressing some of the necessary steps required to properly establish your business and avoid costly errors that many newbies often make:

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## **SUMMARY CHECKLIST:**

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Determine the appropriate business structure for you and REGISTER your business;

Determine whether you need to apply for an HST and payroll number;

Review and familiarize yourselves with expenses that may or may not be tax deductible as business expenses;

Ensure the appropriate steps have been taken to allow for good and easy record/bookkeeping;

If applicable, ensure a proper independent contractor agreement exists between you and your employer;

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## STEP 1: DETERMINE THE APPROPRIATE BUSINESS STRUCTURE FOR YOU AND REGISTER YOUR BUSINESS

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### Do I need to register a business? If so, what type of business structure works best?

For those who did not take an Introduction to Business course, there are a few basic types of business structures that may work for you: a sole proprietorship, a partnership or a corporation. The type of structure that you choose for your business will depend primarily on three important elements:

1. legal liability (who is responsible for assuming the debts of this business),
2. taxation; and
3. record keeping.

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## POTENTIAL BUSINESS STRUCTURES IN A NUT SHELL:

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### Sole Proprietorship

In this structure, the owner has complete managerial control and is personally liable for all financial obligations of the business. The owner will be subject to taxation for their net income generated from their business on their personal income tax return. As such, it is the owner's responsibility for maintaining and summarizing the records of the business.

***Is a Sole Proprietorship for me?*** This business structure is typically best suited for new chiropractors who wish to work as independent contractors or associates at pre-established clinics. It is a relatively easy business structure to start and requires the least amount of financial investment. Once you have determined that this structure is right for you, you can visit your local Service Ontario office to learn more about how to register your business. Even better, feel free to contact your friends at SRJ CA who will be happy to assist you in this process quickly and painlessly for a nominal fee (OCA members are provided preferred rates).

### Partnership

When two or more people reach an agreement to work together and share in the profits/losses of their mutual business. The profits or losses of the partnership will be reported on each individual's personal income tax return by each respective partner. Each partner will be personally liable for the financial obligations of the business and to maintain their share of the record keeping.

***Is a Partnership for me?*** This business structure is best suited for when two or more chiropractors are joining together to form a business and do not wish to incorporate their practice. This structure is cheaper than forming a corporation and may be more easily setup as well. In addition to this structure being easier to establish, it may also be easier to transition yourself out of a partnership than a corporation as well.

If you think that a partnership is the best structure for you, be sure to consider creating a partnership agreement to clearly outline each parties respective roles, responsibilities and profit sharing rights. Once you are ready to proceed with the next steps, you can visit the Service Ontario website to learn more about how to register this type of business. Otherwise our team at SRJ CA will be happy to assist you through process at the pre-negotiated rates agreed upon with the OCA.

## Corporation

A corporation is considered to be a separate legal entity from those individuals who are actually responsible from creating and managing it. Like a person however, the corporation can and will be subject to taxation on any profits and it may also be held legally liable for its actions and/or debts. The key benefit of corporate status is the avoidance of personal liability. In Canada, corporations are typically provided favourable tax rates in comparison to individuals, particularly at higher income levels. Meanwhile, the primary disadvantage to establishing a corporation is the actual setup and annual maintenance costs as well as the extensive record-keeping that is often required.

It is important to highlight the fact that while corporations are taxed as a separate entity, each individual that is an owner of the corporation will still have to file their own personal income tax return and report any income/drawings taken out of the corporation in the year.

***Is a Corporation for me?*** This type of business structure becomes increasingly attractive when two or more chiropractors are joining together to form a business and wish to limit the risks from being personally liable. Furthermore, this business structure is even more attractive for those business owners that may be earning more income than they require to maintain their day-to-day living expenses. The reason for this is that the corporation allows for a tax deferral on any income that is not withdrawn from the corporation during the year.

Corporations are the most common type of business structure that most chiropractic offices will tend to use. While it is certainly the most expensive form of business structure to establish and maintain, the benefits will often outweigh the costs. Due to the complexities that exist in creating a 'professional corporation', we highly recommend that you contact a lawyer or a specialized accountant when setting up such a business. As such, do not hesitate to contact one of professionals at SRJ CA who would be happy to guide you through the incorporation process. We have trained professionals in-house who will be happy to answer any of your questions on such matters and provide you the assistance you need in setting up your corporation.

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## STEP 2: DETERMINE WHETHER YOU NEED TO APPLY FOR AN HST AND PAYROLL NUMBER?

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### Do I need to apply for an HST number?

Harmonized Sales Tax ("HST") is a combination of the Provincial Sales Tax ("PST") and Goods and Service Tax ("GST") into one unified tax. HST came into effect in Ontario on July 1, 2010 and as a result, the Province on Ontario adopted the HST rate of 13% on all taxable services and supplies.

In general, chiropractic services are considered to be one of the listed healthcare services which are HST EXEMPT. This means that you do not need to file an HST return at the end of the year or apply HST on your services, if this is the only service that you plan to provide patients. With that said, we highly recommend that all chiropractors read our article, "HST 101 - How it relates to Ontario Chiropractors." If after reading this article, you determine that you do indeed need to apply for HST, please apply for an HST number with the Canada Revenue Agency directly by completing form RC-1 (downloadable from the Canada Revenue Agency's website) or contact one of our tax professionals to assist you in the matter.

### Do I need to apply for a payroll number?

Every entity that has employees that are earning remuneration in the form of a salary must register for a

payroll account number prior to making their first salary payment. This can be done by completing the RC-1 form from the Canada Revenue Agency's website. Please note, you are considered to be an employee of your own corporation.

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### **STEP 3: REVIEW AND FAMILIARIZE YOURSELF WITH EXPENSES THAT MAY BE TAX DEDUCTIBLE AS BUSINESS EXPENSES**

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#### **What expenses will be considered tax deductible?**

As you start to practice in your career, it is very important to understand what business expenses you are eligible to deduct and which ones are considered non-deductible.

As a general rule of thumb, you may deduct any business expenses that you will have to pay to earn business income.

For a full list of expenses, please visit the following link on the CRA website <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/slprtnr/bsnssxpns/#expenses> or call SRJ Chartered Accountants for clarification on whether an expense is indeed deductible.

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### **STEP 4: ENSURE THE APPROPRIATE STEPS HAVE BEEN TAKEN TO ALLOW FOR GOOD AND EASY RECORD/BOOKKEEPING**

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In order to ensure that you are properly managing your books and records, we at SRJ CA highly recommend the following bookkeeping basics:

1. Have a separate personal checking account (for sole proprietorships) or even business checking account (for some sole proprietorships, partnerships and corporations) to be used to deposit revenues and pay all business expenses. This will ensure that all personal income and expenditures are kept separate from business income and expenditures, which will allow for easy bookkeeping at the end of the year using your monthly bank statements.
2. Keep all of your receipts nicely organized and sorted by each type of expenditure. If you are doing your own bookkeeping, you may wish to match your receipts to your bank statements at the end of every month. This process is called a bank reconciliation. At the end of this process, you may wish to attach your monthly receipts to your bank statements once they have been accounted for in your bookkeeping software.
3. There are a few different options for keeping a record of all of your expenses:
  - d) Most basic practices will start off by using a basic excel spreadsheet;
  - e) Larger practices may want to buy a proper accounting program such as QuickBooks or Simply Accounting to keep better track of your revenue and expenses. While such programs can be more costly and time consuming to setup, they offer much more detailed reports and options for features such as invoicing, tracking payables and receivables and up to date financial information.
6. For larger clinics, make sure you purchase a user friendly and easy to use Practice Management Software that can pull out important financial reports such as utilization rates per practitioner, budgets, forecasts and year-to-date performance figures.

## STEP 5: ENSURE A PROPER INDEPENDENT CONTRACTOR AGREEMENT EXISTS BETWEEN YOU AND YOUR EMPLOYER:

Most new chiropractors will begin working at many different clinics and it is very common for an independent contractor relationship to exist between you and your employer. While there certainly is a grey area in determining whether you are an employee or an independent contractor, you can find more guidance on the matter at the following link:

<http://www.cra-arc.gc.ca/E/pub/tg/rc4110/rc4110-e.html>

There are a number of tests that one must consider in making a determination in either case. While your intent certainly is a factor, other things such as control over your activities and services, ownership of tools, risk of profit and loss, and a number of other facts must also be taken into consideration before settling on a position on this matter. If you do feel that you are acting as an independent contractor, it is important to have a proper independent contractor agreement between you and your employer.

If you would like a template of what a proper independent contractor agreement should include, please contact our offices at [info@srjca.com](mailto:info@srjca.com). This agreement will be made available to all OCA Members.

By following these five simple steps brought to you by SRJ CA, this should help ensure a smooth transition into your new and exciting careers as healthcare professionals. If you ever have any questions, whether big or small, please do not hesitate to contact us at [info@srjca.com](mailto:info@srjca.com) and our goal is to always be there to help you understand the not so simple side of running a business.

Congrats again and best wishes to you from SRJ CA!



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