

Veterinary Corporations:

More Questions, More Answers

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It's been two years since the rules changed, allowing veterinarians to practice through veterinary corporations. Before 2017, veterinary corporations were illegal. Today, veterinarians may practice through a veterinary corporation, but only they comply with strict requirements. A non-complying veterinary corporation is still illegal, and a veterinarian who practices through a non-complying veterinary corporation could be subject to professional discipline.

Q. What's a veterinary corporation, and why would a veterinarian want one?

Veterinary corporations are a lawful way by which veterinarians may enjoy certain income tax benefits.

Let's start with a brief overview about veterinary corporations. Before the days of veterinary corporations (and

still today for veterinarians without a veterinary corporation), a veterinarian entered into a direct relationship with an animal owner. The veterinarian promised to provide certain veterinary services, and the animal owner promised to pay the veterinarian in turn. For income tax purposes, the professional income of the practice was attributed to the veterinarian. In such an arrangement, veterinarians have little or no opportunity to reduce their income tax liability. They cannot engage in income-splitting with family members, and they are unable to shield savings from relatively high rates of taxation.

But veterinary corporations can reduce liability for income tax. A veterinary corporation acts as an intermediary between the veterinarian and the animal owner. Instead of a direct relationship, the animal owner enters into a contract with the veterinary corporation for certain services. In turn, the corporation enters into an agreement with the veterinarian to provide those services. From the perspective of the animal owner, there is no significant difference: the animal still receives the needed veterinary services, and the animal owner still pays for those services. However, the intermediacy of the veterinary corporation is very significant for the veterinarian. Because the animal owner pays the corporation directly, the

veterinarian has options that could reduce overall income tax liability. Instead of paying all of the profits directly to the veterinarian, the corporation might split that income by paying dividends to family members, or the veterinary corporation might retain some of the excess income for investment.

Veterinary corporations have no effect upon the professional responsibility of the veterinarians who own them. By law, the MVMA still has direct oversight and discipline over the veterinarians who practice through veterinary corporations. The public interest remains protected.

Q. Are veterinary corporations different from other kinds of corporations?

Veterinary corporations are the only lawful way in which a veterinarian may practice veterinary medicine, unless the veterinarian chooses to practice as a sole individual.

Anyone may incorporate a company for almost any reason, but companies that engage in the practice of veterinary medicine must be veterinary corporations. (It is important to remember that, where a corporation merely acts as an intermediary between a veterinarian and an animal owner in need of veterinary services, this in itself falls within the legal definition of

providing veterinary services.) In order to be a lawful veterinary corporation, such corporations must meet specific and strict requirements. Any corporation that does not comply with those requirements is not a legal veterinary corporation. These requirements ensure that, despite incorporation, the professional responsibility of MVMA individual members is preserved. It follows that, in order to protect the public interest, the legal requirements apply whether or not the veterinary corporation is a not-for-profit organization.

If a non-compliant corporation nonetheless engages in the practice of veterinary medicine, the corporation is engaged in the unauthorized practice of veterinary medicine. Several negative consequences could result, including (1) the courts could issue an injunction against the unlawful corporation; (2) the corporation and its owners could be prosecuted in Provincial Court; (3) the owners of the corporation could be subject to MVMA disciplinary proceedings; and, (4) the Canada Revenue Agency could review and reassess the past tax filings of the corporation and its owners.

Q. What are the requirements that a veterinary corporation must meet?

The requirements for a veterinary corporation are set out at s. 15(3) of *The Corporations Act*, CCSM c. C225; Part 4.1 of *The Veterinary Medical Act*, CCSM c. V30; and, Part 3 of MVMA General By-Law No. 1.

Veterinarians should consult an appropriate professional advisor in order to determine if a veterinary corporation is suitable for their practice and financial interests. In addition, such advisors may help in the incorporation of a compliant veterinary corporation, or they may provide guidance to the veterinarian who seeks to bring into compliance a non-complying corporation.

The MVMA recognizes that, for some veterinarians, there may be significant business, financial, and tax costs that arise out of the necessary "conversion" of non-compliant corporations into lawful veterinary corporations. (Veterinarians may have legal recourse against professional advisors who mistakenly told them to create veterinary corporations which are illegal or otherwise non-compliant.) However, compliance with MVMA rules is required in order to protect the public interest, which is the primary mandate of any statutory regulator.

Q. What's a management company, and is it the same thing as a veterinary corporation?

A management company is different from a veterinary corporation, and a management company is not subject to the requirements that govern veterinary corporations.

A management company does not engage in the practice of veterinary medicine. It does not act as an intermediary between an animal owner and a veterinarian for the provision of veterinary services. A management company does not enter into contracts with animal owners or otherwise collect the revenues that a veterinary practice has generated. Instead, a management company supports the practice of veterinary medicine. A management company traditionally arose in order to provide income tax benefits to its owners. For example, it might lease space for the veterinary clinic and then sub-let that space at a profit to a veterinarian or a veterinary corporation. The profit could then be redistributed through dividends or retained as savings, presumably resulting in a reduced income tax liability for the veterinarian. With at least the notable exception where veterinarians wish to distribute profits beyond immediate family members, the introduction of veterinary corporations has largely made redundant the use of management companies.

Because a management company never enters into contracts with animal owners or otherwise engages in the practice of

veterinary medicine, the incorporation and operation of management companies are generally beyond the oversight of the MVMA.

Q. I've still got questions!

MVMA members who have further questions about veterinary corporations should consult an appropriate professional advisor. While it is able to provide general comments, the MVMA's regulatory function precludes the giving of legal, financial, or other advice. No one should rely upon this article or any other comments, whether in writing or oral, from the MVMA when considering in any way whatsoever veterinary corporations and their suitability or usefulness to one's professional practice or financial interests.