



Ward & Uptigrove
Veterinary Advisory Group

Accounting & Tax for Veterinary Practices

January 22, 2025



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Who we are



**Dave LeGault –
CPA, CGA, Counsel**

Dave developed the Veterinary Advisory Group at W&U, which provides Accounting, Business Advisory, HR and WM services tailored to Veterinarians and their practice. He also initiated Transactional Services, supporting clients with their buys and sells.

**Jon Soltys –
CPA, CA, Partner**

Jon serves mainly small to mid-size businesses, with expertise in the veterinary industry, assisting with tax, accounting, and business transitions.



**Jeff Sulemanovski –
MAcc, CPA, CA, Tax Partner**

Jeff draws on over 15 years of tax-focused experience to assist with corporate reorganizations, buy-sell transactions, estate and succession planning, and Canadian income tax compliance.



**Rita Cole –
CPA, CGA, Principal**

Rita works primarily with veterinary professionals with a focus on compliance work including financial statements, corporate and personal tax returns, government filings, cash flow projections, industry benchmarking and practice buys and sells.



**Ryan Goetz –
CPA, CFA, Principal**

Ryan serves small to mid-sized owner-managed businesses, with expertise in the veterinary industry. Ryan provides advice on corporate and personal tax planning, corporate structure assistance and succession planning as well as annual compliance work.



What we do

With over 65 years of experience and ongoing representation in the veterinary industry, we provide integrated services customized for veterinarians and their practices.



Agenda

- Industry Update
- Private Veterinary Practice Buys/Sells and Issues Impacting the Veterinary Industry
- Benchmarking
- Understanding the Balance Sheet
- Tax Items
 - Capital Gains Updates
 - Capital Gains Exemption – What is it?



Industry Update



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Industry Update

- **Revenues** – In Ontario, companion animal clinics have seen a 4% increase in revenue for the last 12 months. Mixed and large animal practices have seen a 5% increase in revenue for the last 12 months.
- **Fees** – Annual or semi-annual fee increases remain important. Inflation has levelled off but need to keep monitoring increasing costs and making sure fees are increasing at the same rate.



Industry Update

- **Staffing** – Minimum wage increased October 1, 2024 from \$16.55/hour to **\$17.20/hour**. Minimum wage is set to increase again October 1, 2025. Staffing shortages mean retention of employees has become very important and part of this is offering competitive wages. Over the last two years, the median salary for an associate DVM has increased 15%.
- **Interest rates** – Prime interest rate has been going down. We have seen 5 rate cuts since June 2024 with the prime rate decreasing from 7.2% to 5.45%.



Private Veterinary Practice Buys/Sells and Issues Impacting the Veterinary Industry



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Private Veterinary Practice Buys/Sells

- **How Buyers Determine Enterprise Value** – EBITDA multiple
 - Current market capitalization rate applied to veterinary clinics EBITDA
 - EBITDA impacts post-transaction
- **Corporate Consolidation** – Seller's post-transaction experiences
- **Current Market Prospects and Insight**



Issues Impacting the Veterinary Industry in 2025

General Issues

- What the industry needs to consider to address online retailers such as Chewy entering the Canadian market
 - Effect on your veterinary clinics bottom line (ex. how to deal with parasite medications available without a veterinary visit)
- Participation in veterinary practice study groups to achieve Best Practices for your veterinary clinic



Issues Impacting the Veterinary Industry in 2025

OVMA and Vet Purchasing Services

- Access to the OVMA's veterinary clinic Budgeting service
- Access to the OVMA's/IDEXX use of Dashboard - price guide
- Participation in OVMA's establishing a standardized chart of accounts to assist veterinary clinics in Benchmarking
- Access to Vet Purchasing members benefits
 - ex. a COGS review to ensure product markup is at market and is competitive in your geographically market



Benchmarking



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Benchmarking

- Importance of benchmarking – how does your clinic compare to the industry?
- W&U and OVMA have databases of clinics – small animal, large animal, and mixed practices
- Limitations on mixed practice
- Large animal clinics – species dependent
 - OVMA can assist with margin by species



Benchmarking By Practice Type

	Small Animal	Mixed Practice	Large Animal
Revenue	100.0%	100.0%	100.0%
Cost of Goods Sold			
Cremation Services	1.2%	0.7%	0.0%
Drugs and Supplies	25.1%	33.1%	39.6%
Laboratory Fees	3.1%	1.7%	1.2%
Total Cost of Goods Sold	29.4%	35.5%	40.8%
Gross Margin	70.6%	64.5%	59.2%
Operating Expenses			
Locum	2.6%	1.5%	2.2%
Office and Telephone	2.0%	2.2%	2.2%
Salaries and Benefits - Non DVMs	19.8%	15.5%	11.0%
All other operating expenses	7.6%	7.9%	8.2%
Total Operating Expenses	32.0%	27.1%	23.6%
Occupancy Costs	3.6%	1.7%	3.7%
Total Expense	35.6%	28.8%	27.3%
EBITDA Before Owner Compensation	35.1%	35.7%	31.9%
Interest on Long-Term Debt	1.0%	0.8%	0.5%
Contract Fees to Holding Companies	2.3%	10.3%	4.5%
Salaries and Benefits - Associate DVMs	7.8%	7.6%	6.7%
Salary - Shareholder	3.6%	1.0%	0.6%
Amortization	1.6%	1.5%	1.3%
Net Operating Income	18.8%	14.5%	18.3%

EBITDA =
Earnings Before, Interest,
Taxes, Depreciation and
Amortization

- Financial metric used to value a business



Benchmarking – Small Animal

	SA	
	Clinic A	Average
Revenue	100.0%	100.0%
Cost of Goods Sold		
Cremation Services	1.3%	1.2%
Drugs and Supplies	24.2%	25.1%
Laboratory Fees	2.9%	3.1%
Total Cost of Goods Sold	28.4%	29.4%
Gross Margin	71.7%	70.6%
Operating Expenses		
Locum	0.0%	2.6%
Office and Telephone	1.3%	2.0%
Salaries and Benefits - Non DVMs	16.2%	19.8%
All other operating expenses	7.2%	7.6%
Total Operating Expenses	24.6%	32.0%
Occupancy Costs	2.2%	3.6%
Total Expense	26.8%	35.6%
EBITDA Before Owner Compensation	44.8%	35.1%
Interest on Long-Term Debt	0.0%	1.0%
Contract Fees to Holding Companies	0.0%	2.3%
Salaries and Benefits - Associate DVMs	3.0%	7.8%
Salary - Shareholder	15.1%	3.6%
Amortization	0.5%	1.6%
Net Operating Income	26.1%	18.8%

- Clinic A – Slightly higher margin - 71.7%
- Lower operating costs due to lower non-DVM staffing costs
- EBITDA at 44.8% of revenue, 9.7% higher than the average practice
- For every \$1M of gross revenue, this clinic generates \$97,000 more profit than an average SA clinic



Benchmarking Takeaways

- Useful analysis to compare your practice to industry averages
- Analyze cost structure – are you paying more in costs than other practices?
- Revenue – are there services that pricing can be increased on?
 - OVMA has an extremely useful fee tool to show impacts of price increases



Benchmarking Takeaways

- **For Practice Managers**
 - Review Quarterly Profit and Loss Statements
 - Review key data and compare to prior year quarterly financials
 - Gross margin, staffing costs (DVM and non-DVM), and other
 - Watch trends – are ratio's trending in the right or wrong direction?



Understanding the Balance Sheet



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What is a Balance Sheet?

- A financial statement showing a company's financial position at a **specific point in time**.
- Purpose:
 - Understand resources and obligations
 - Assess financial health
 - Aid in decision-making
- The balance sheet compliments the income statement and cash flow statement for a full financial picture.



Components of a Balance Sheet

- 1. Assets** – What the company owns
 - Current Assets (ex., cash, accounts receivable, inventory).
 - Non- Current Assets (ex., property, equipment, long-term investments).
- 2. Liabilities** – What the company owes
 - Current Liabilities (ex., accounts payable, short-term debt).
 - Non-current Liabilities (ex., long-term loans, bonds).
- 3. Shareholder's Equity** – Owner's stake in the company
 - Common stock, retained earnings



Limitations of the Balance Sheet

- Snapshot in time – Usually doesn't show trends further than prior year comparative.
- Based on historical cost - Assets may be undervalued.
- Some Intangible assets may be omitted.



The Balance Sheet Equation

$$\text{Assets} = \text{Liabilities} + \text{Shareholder's Equity}$$

Example:

- Assets: \$500,000
- Liabilities: \$300,000
- Shareholder's Equity: \$200,000

Example Veterinary Medicine Professional Corporation

Balance Sheet
as at July 31, 2024

in dollars
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	2024	2023
ASSETS		
Current Assets		
Cash	200,000	150,000
Accounts receivable	1,000	7,000
Other receivable	-	100,000
Income taxes receivable	21,000	-
Inventories	130,000	105,000
	352,000	362,000
Other Assets		
Goodwill	370,000	370,000
Capital Assets - Note 2		
Cost	950,000	890,000
Less accumulated amortization	300,000	270,000
	650,000	620,000
TOTAL ASSETS	1,372,000	1,352,000
LIABILITIES AND SHAREHOLDER'S EQUITY		
LIABILITIES		
Current Liabilities		
Accounts payable and accruals	75,000	117,000
Government remittances payable	27,000	-
Income taxes payable	-	35,000
	102,000	152,000
Long Term Liabilities		
Due to shareholder	509,900	639,900
TOTAL LIABILITIES	611,900	791,900
SHAREHOLDER'S EQUITY		
Common shares - Note 3	100	100
Retained earnings	760,000	560,000
TOTAL SHAREHOLDER'S EQUITY	760,100	560,100
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	1,372,000	1,352,000

Example Balance Sheet



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Key Ratios Derived from the Financial Statements

- **Liquidity Ratios**
 - Current Ratio = Current Assets \div Current Liabilities
 - Working capital = Current Assets - Current Liabilities
- **Efficiency Ratios**
 - Inventory Turnover = Cost of Goods Sold \div Inventory
 - Accounts Receivable Turnover = Sales \div Accounts Receivable
- **Profitability Ratios**
 - Return on Equity (RoE) = Net income \div Total Shareholder's Equity

Tax Items to Consider



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Capital Gains – What is it?

- What is a capital gain?
 - Proceeds on the sale of “capital property” for more than cost
- What is capital property?
 - All property is either inventory or capital property
 - Generally, if not inventory, then it’s capital property
- Brief History
 - Pre-1972 – capital gains not subject to taxation
 - Capital gains inclusion rate history
 - 50% to 1978 and from 2001 and onwards
 - 1990s saw 66.67% and 75%



Capital Gains – What were the proposals?

- Negative:
 - Proposed to increase the capital gains inclusion rate from 50% to 66.67% (% wise, this was a 33% increase in capital gains tax)
 - Different rules for corporations and individuals
 - Effective date: June 25, 2024
- Positive:
 - Proposed to increase the lifetime capital gains exemption from \$1,016,836 to \$1,250,000 (almost 23% increase)
 - Effective date: June 25, 2024



Capital Gains – What we know to-date

- Increasing likelihood that the capital gains changes will be cancelled
 - With Parliament now prorogued, the draft legislation for the capital gains changes would have to be reintroduced and started over
 - Strong likelihood that this will not occur before an election is called
 - Based on current polls, the Liberals have a less than 1% chance of being re-elected
 - Pierre Poilievre has publicly said that the Conservatives will not proceed with the changes and called on the CRA to stop collecting the higher tax

Capital Gains – 2024 Tax Filing Uncertainty

- Effective date of tax changes was June 25, 2024
- CRA has publicly advised taxpayers to file tax returns using proposed legislation (based on past administrative policy)
 - What if proposed changes don't go through?
 - What if proposed changes go through?
- Hope – with all the new information needed to be reported by trusts and partnerships, we're hoping a statement is made in the very near future that will provide for clarity with respect to 2024 tax filings



Capital Gains Exemption – What is it?

- Many complex rules and requirements
- Only available to individuals
- Limit is per individual, not family
- Current limit is \$1,016,836, indexed annually (cumulative, lifetime)
- Tax savings if using full limit is over \$272K (at top marginal tax rate)
- Must sell shares of a qualified small business corporation (QSBC)
 - Various tests that look at the assets of your VMPC both at the time of a sale and the 24-month period immediately prior to a sale
 - Non-business assets can mean you're offside these rules



Questions?



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Thank You!



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