



TAX MATTERS FOR MEDICAL & DENTAL PRACTITIONERS

2020 YEAR AUTUMN EDITION

ACCRUE
Chartered Accountants
Level 1
8 Phipps Close
Deakin ACT 2600

Tel (02) 6285 4441
Email: admin@accrue.com.au
Website: www.accrue.com.au

We are an accounting firm specialising in providing accounting, taxation and advisory services to medical and dental professionals. As a result of our many years of experience, we have a comprehensive understanding of the needs, issues and concerns that are unique to medical and dental professionals.

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Welcome to our Autumn edition. Topics covered:

- Covid-19 & Government Economic Support Packages
- How to satisfy the eligibility requirements to correctly claim a tax deduction for a personal super contribution
- For taxation purposes, is your medical practice income subject to the Personal Services Income (PSI) rules?
- Travel and depreciation deduction restrictions for rental properties

Covid-19 & Government Economic Support Packages

What a changed world we are living in as we all try to navigate the challenges arising from the current Coronavirus Pandemic, including protecting the health and safety of our friends and family and the viability of our businesses, employment and investments.

The measures put in place to try and control the spread of Covid-19, have had an adverse effect on most businesses including those conducted by medical and dental practitioners. In response, the government has put in place a number of financial support schemes for both individuals and businesses. The two primary support schemes available for businesses/practitioners and their employees are:

- **Cash Flow Assistance for Business**
- **JobKeeper Payment**

A broad overview of each of these support schemes is detailed below:

Cash Flow Assistance for Business

Small and medium-sized businesses with an aggregated annual turnover of less than \$50m, that employ people, may be eligible to receive a total payment of up to \$100,000 (with a minimum total payment of \$20,000) based on their PAYG withholding obligations in two stages:

Stage 1 payment (credit)

Commencing with the lodgment of activity statements from 28 April 2020, eligible employers that withhold PAYG tax on their employees' salary and wages will receive a tax-free payment equal to 100% of the amount withheld, up to a maximum of \$50,000. Eligible employers that pay salary and wages will receive a minimum (tax-free) payment of \$10,000, even if they are not required to withhold PAYG tax. The tax-free payment will broadly be calculated and paid by the ATO as an **automatic credit** to an

employer, upon the lodgment of activity statements from 28 April 2020, with any resulting refund being paid to the employer. This means that:

- **quarterly lodgers** will be eligible to receive the payment for the quarters ending March 2020 and June 2020; and
- **monthly lodgers** will be eligible to receive the payment for the March 2020, April 2020, May 2020 and June 2020 lodgments.

Note that, the minimum payment of \$10,000 will be applied to an entity's first activity statement lodgment (whether for the month of March or the March quarter) from 28 April 2020.

Stage 2 payment (credit)

For employers that continue to be active, an additional (tax-free) payment will be available in respect of the June to October 2020 period, basically as follows:

- **Quarterly lodgers** will be eligible to receive the additional payment for the quarters ending June 2020 and September 2020, with each payment being equal to 50% of their total initial (or Stage 1) payment (up to a maximum of \$50,000).
- **Monthly lodgers** will be eligible to receive the additional payment for the June 2020, July 2020, August 2020 and September 2020 activity statement lodgments, with each additional payment being equal to a quarter of their total initial (or Stage 1) payment (up to a maximum of \$50,000).

Again, the ATO will automatically calculate and pay the additional (tax-free) payment as a **credit** to an employer upon the lodgment of their activity statements from July 2020, with any resulting refund being paid to the employer.

JobKeeper Payment

Eligible businesses will receive a payment of \$1,500 per fortnight per eligible employee or one eligible business participant, for a maximum of 6 months. The allowance will be paid to those businesses significantly impacted by the Coronavirus. Under the arrangement, it is a requirement that eligible employers ensure their eligible employees will receive, at a minimum, \$1,500 per fortnight, before tax.

Eligible Employers

- Employers will be eligible for the allowance if their business has a turnover of less than \$1 billion and their turnover will be reduced by more than 30 per cent relative to a comparable period a year ago (of at least a month);
- The employer must have been in an employment relationship with eligible employees as at 1 March 2020;

- Self-employed individuals (businesses without employees) that meet the turnover tests that apply for business, are eligible to apply for the JobKeeper payment.

Eligible Employees

- employees who are currently employed by the eligible employer (including those stood down or re-hired);
- were employed by the employer at 1 March 2020;
- are full-time, part-time, or long-term casuals (a casual employed on a regular basis for longer than 12 months as at 1 March 2020);
- are at least 16 years of age;
- are an Australian citizen the holder of a permanent visa, a Protected Special Category Visa Holder, a non-protected Special Category Visa Holder who has been residing continually in Australia for 10 years or more, or a Special Category (Subclass 444) Visa Holder; and
- are not in receipt of a JobKeeper Payment from another employer.

How to apply for the JobKeeper Payment

- Initially, employers can register their interest for the payment via the ATO website – www.ato.gov.au/Job-keeper-payment from 30 March 2020. Subsequently, eligible employers will be able to apply for the scheme by means of an online application;
- Eligible employers will need to identify eligible employees for JobKeeper payments and must provide monthly updates to the ATO;
- Businesses without employees, such as the self-employed, register their interest and apply for the payment via the ATO website – ato.gov.au
- Businesses without employees will need to provide an ABN for their business, nominate an individual to receive the payment and provide that individual's Tax File Number and provide a declaration as to recent business activity.

Timing of Payments

- The Jobseeker Payments scheme will start from 30 March 2020, with the first payment to be received by employers in the first week of May. The scheme will conclude on 30 September 2020.

Further details, including examples, can be found at the government website – treasury.gov.au



Making sure you are eligible to claim your personal super contribution on tax

With the removal of the '10% test' from the 1 July 2017, there has been an increase in the number of individuals (especially employees) being able to claim a deduction for personal superannuation contributions.

A deduction for a personal superannuation contribution **can only be made** if you satisfy the following conditions:

- The contribution must be made to a complying superannuation fund and not to a Commonwealth public sector superannuation scheme;
- If you were aged 65 years or over (but less than 75 years) at the time of making the contribution, you satisfied the 'work test' just prior to making the contribution. The work test is satisfied if you work for a minimum of 40 hours in any 30 consecutive day period. An exemption from the work test applies for one year only for retirees aged 65-74, where their member's balance is below \$300,000;
- The 'deduction notice' requirements. These requirements will be satisfied when:

(i) the individual has given a valid written notice in the approved form to their super fund (within the relevant time frame), advising of the amount of personal contributions they intend to claim as a tax deduction. The time frame for providing this notice is by the **earlier** of:

- by the time the individual's tax return is lodged for the income year in which the contribution is made; and
- the end of the following income year (i.e. 30 June), and

(ii) the super fund has provided the individual with a **written acknowledgment** of their notice and confirms the super contribution amount to be claimed as a deduction.

For taxation purposes, is your medical practice income subject to the Personal Services Income (PSI) rules?

The vast majority of practitioners working from medical centres do so on an independent contracting basis, often referred to as the 'Associateship Model'. The arrangement is evidenced by way of the following:

- a documented contractual agreement between the practitioner and the medical centre;
- both parties to the agreement acknowledging that the dealings between them is not one of an employer/employee;
- the practitioner appointing the medical centre as their agent for the collection of patient fees;
- the medical centre charging a service fee (inclusive of GST) to the practitioner for services provided. The service fee amount is generally based as a percentage of the practitioner's patient fees;
- the medical centre deducting the service fee from the patient fees collected and paying the balance to the practitioner.

If you are a practitioner who has the above arrangements, from a taxation perspective, you will most likely be regarded as operating a Personal Service Business (PSB). This is due to the fact that you pass both:

- The '80% income test' - no one patient generates 80% of the practitioner's income for the year. This would generally be the case as most practitioners have multiple patients.
- The 'Unrelated client test' - income is derived from two or more unrelated patients and the practitioner's services are provided to the public or section of the public.

Having your income treated as PSB means the PSI rules do not apply. Which means, being able to claim as a deduction expenses such as wages and superannuation in respect of an associate (i.e. spouse) for non-principal work. Any wage payments to an associate must however be based on going market rates and actual hours worked.

Being a practitioner operating a PSB, whether as a sole trader or via a company structure, does not however mean that you are able to split income with associates and family members. There are taxation rulings in place specifically preventing practitioners from income splitting with associates and family members.



Travel and depreciation deduction restrictions on rental properties

It is quite common for practitioners to directly or indirectly own one or more residential rental properties. The properties may be held in a family trust or perhaps in their Self Managed Super Fund (SMSF). Since 1 July 2017, certain restrictions for travel and depreciation expense claims have applied in respect of residential rental properties owned by individuals, discretionary trusts and SMSFs.

The ATO has identified through its audit activity, significant non-compliance with the above travel and depreciation deduction restrictions. The non-compliance may be due to a lack of knowledge of the deduction restrictions. If incorrect deduction claims are identified by the ATO, additional tax and penalties will apply.

Broadly, the restrictions apply as follows:

Depreciation expenses

- The depreciation restrictions are to apply in respect of 'previously used' (i.e. second hand) assets, that are used or installed for use in residential premises used for residential accommodation from 1 July 2017;
- Whether the restrictions apply from 1 July 2017 will depend on:
 - Whether the depreciable asset was acquired on after 7.30pm on the 9 May 2017 and how the asset was used in the 2017 income year; and
 - Whether or not the asset was 'previously used' or is a new asset or was acquired as part of acquiring new residential premises
- A depreciating asset is subject to the new rules from 1 July 2017 in either of the following circumstances:
 - The asset was acquired under a contract entered into at or after 7.30pm on the 9 May 2017;
 - The asset was acquired before 7.30pm on the 9 May 2017 and it was used for any purpose during the 2017 or an earlier income year, and no depreciation deduction was available during the 2017 income year;

- The restrictions deny deductions on depreciating assets acquired after 7.30pm 9 May 2017 and used in an income producing residential property if the asset has been 'previously used' i.e. second-hand;
- A depreciation deduction will still be available for new assets acquired by residential rental property owners;
- The exception to the rule – 'previously used' assets installed in new residential premises. This exception was specifically introduced to ensure that investors who acquire new residential premises directly from a developer, can still claim depreciation;
- The six-month test – the asset was used or installed ready for use in new residential premises that was supplied to the owner within six months of the premises becoming new residential premises;
- Where depreciation on an asset is denied, the cost of the asset is added to the cost base of the property for capital gains purposes.

Travel expenses

- With effect from 1 July 2017 travel expenses related to inspecting, attending corporate body meetings, maintaining or collecting rents are not deductible;
- Travel expenses include motor vehicle expenses, taxis, public transport, road tolls, airfares and any associated meal or accommodation costs;
- The costs incurred in engaging third parties (i.e. real estate agents) to perform these tasks, will continue to be tax deductible;
- The measures apply irrespective of when the property was purchased;
- Further, the travel expense amount is not able to be added to the cost base of the property for capital gains purposes.

If you have any questions on the topics covered please contact Peter Roberson by email at peter@accrue.com.au or phone (02) 62854441

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