ACCRUE®

CLEAR DECISIVE PROVEN

TAX MATTERS FOR MEDICAL & DENTAL PRACTITIONERS

2020 WINTER EDITION

ACCRUE
Chartered Accountants
Level 1
8 Phipps Close
Deakin ACT 2600

Tel (o2) 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.
Please refer to our website for further details, including client testimonials.
Website: www.accrue.com.au/medical

Welcome to our Winter edition. Topics covered:

- Possible tax-deductible expenses for a medico working from a medical centre
- Wealth creation benefits of concessional super contributions
- Myth – A company structure can protect against patient negligence claims
- Log books and work-related car travel
- Choosing a structure to own your investment property

Possible tax-deductible expenses for a medico working from a medical centre

A medico working from a medical centre, on an independent basis, is generally provided with the necessary facilities and administration support to enable them to provide healthcare services. For this the medico pays a service fee, which in most circumstances is calculated as a percentage of the patient fees derived. The percentage is generally in the range of 30% to 45%. As most of the medico's expenses are included in this service fee, there are limited other expense deductions able to be claimed. Expenses not included in the service fee, able to claimed (assuming the expense has actually been incurred) are as follows:

- Professional Indemnity Insurance
- Income Protection Insurance
- Work related use of motor vehicle
- Work related use of mobile phone
- Work related use of home internet
- Home office use claim – generally based on cents per hour
- Professional Memberships (i.e. AMA, RACGP)
- Conference fees, including travel and accommodation costs
- Superannuation Contributions
- Subscriptions to Medical Journals etc.
- Donations
- Professional library

Wealth creation benefits of concessional superannuation contributions

The wealth creation and taxation benefits of making concessional super contributions should not be underestimated, as is demonstrated by the below table:

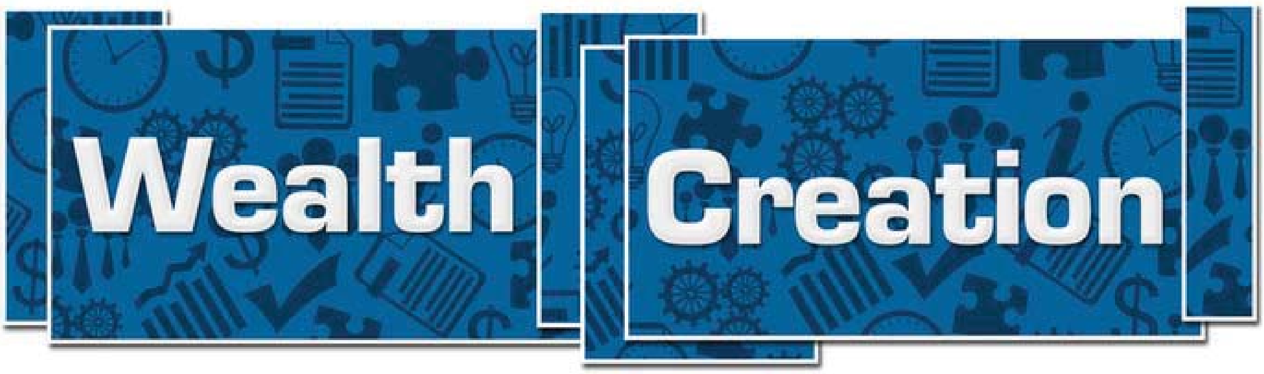
	Marginal Tax Rates				Notes
	19.00%	**32.50%**	**37.00%**	**45.00%**	**1**
Superannuation contribution	25,000	25,000	25,000	25,000	
Less: Tax paid on contribution @15%	3,750	3,750	3,750	3,750	
Net Funds Retained in Super Fund	21,250	21,250	21,250	21,250	
Cashflow Effect					
Super contribution	25,000	25,000	25,000	25,000	
Less: Taxation benefit at marginal tax rate	4,750	8,125	9,250	11,250	2
Net Cash Outflow	20,250	16,875	15,750	13,750	
Net Funds in Super Fund Account	21,250	21,250	21,250	21,250	
Net Increase in Wealth	**$1,000**	**$4,375**	**$5,500**	**$7,500**	3

Notes

1. Based on tax rates applying for the 2019/2020 year, not taking into account the 2% Medicare Levy.
2. Not accounting for any Division 293 tax that may apply if the individuals adjusted taxable income exceeds $250,000.
3. Assuming no increase or decrease in the market value of investments in the super fund.

If your marginal tax rate is 45% (Taxable income in excess of $180,000) and you make a super contribution of $25,000, the after-tax amount remaining in your super fund will be $21,250. However, the net after tax cashflow cost of having an additional $21,250 in your super fund is only $13,750. A net increase in your wealth by an amount of $7,500. The benefit is due to:

- the super contribution amount being concessional taxed at 15%
- the deduction for the super contribution being at the individuals marginal tax rate i.e. 45%



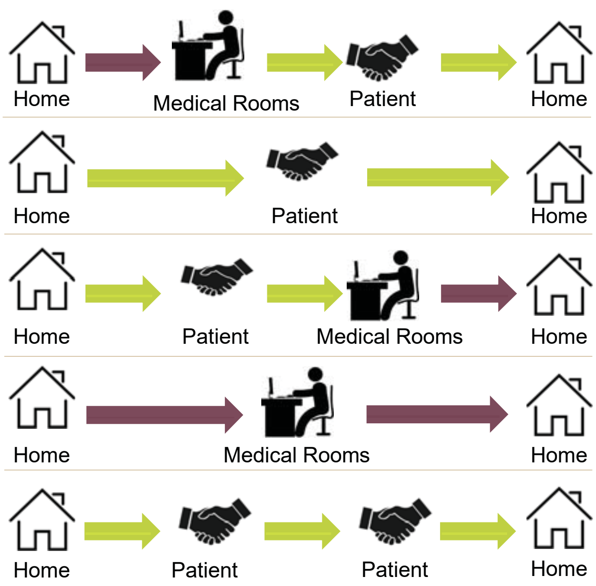
Ph: (02) 6285-4441 Fax: 6285-4464 www.accrue.com.au
PO Box 216, Deakin West, ACT 2600 Level 1, 8 Phipps Close, Deakin ACT 2600

Myth – A company structure can protect against professional negligence claims

- It is common myth that medical and dental practitioners can set up a legal entity (i.e. company) as a form of protection against professional negligence claims. However, this is not the case. Simply closing down the entity or ensuring it has no assets, does not prevent a patient from suing you personally.
- It is therefore vital that practitioners maintain an appropriate level of professional indemnity insurance, regardless of their business structure. As the practitioner is personally liable, professional indemnity insurance is essential.

Log Books and Work-Related Car Travel

Once a log book has been completed it is valid for five years. If you have a log book that was completed in the 2014/2015 year, or earlier, you will need to have completed a new log book before 30 Jun 2020 for it to be valid and used in determining car deductions for the 2019/2020 year. When completing a log book, it is important to understand which trips are business related and which are private.



Above is a summary of the common trips undertaken by both employees and business owners. The green arrows represent business related travel and the purple arrows represent private travel. Note that the trip from home to work, will in most cases always be private.

Choosing a structure to own your investment property

- When purchasing an investment property, it is important to consider in whose name the property is to be owned. Should it be held in the name of the individual who is on the highest marginal tax rate, spouse name, joint names, in the name of an entity such as a trust or some other ownership structure? Issues to take into consideration to help determine the ownership issue include: whether the property will be negatively or positively geared, the marginal tax rates of the individuals involved, the likely capital gain to be realised on the sale of the property, whether asset protection is important, the intended ownership period of the property etc.
- As practitioners carry the risk of being sued by patients, for asset protection reasons it is generally recommended that practitioners avoid holding assets in their own names. This is despite the fact the practitioner will most likely have professional indemnity insurance.
- If the property is negative geared, and will be for some years, the greatest tax benefit is achieved by having the property in the name of the individual who pays tax at the higher marginal tax rate. This would generally be the practitioner.
- When the property is sold, any assessable capital gain will be included in the tax return of the individual(s) or entity in who's name the property is held. Where the property is held for more than 12 months before sale, a 50% discount will apply to the capital gain.
- It will therefore very much depend on your own personal circumstances as to in who's name the property should be acquired. Getting the ownership issue wrong can have significant tax and asset protection implications.

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

Disclaimer
This publication is for guidance only, and professional advice should be obtained before acting on any information contained herein. Neither the publisher nor the distributors can accept any responsibility for loss occasioned to any person as a result of action taken or refrained from in consequence of the contents of this publication.