ACCRUE®
CLEAR DECISIVE PROVEN

TAX MATTERS FOR MEDICAL & DENTAL PRACTITIONERS

2020 SPRING EDITION

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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 Spring edition. Topics covered:

- Extension to the Jobkeeper Payment Scheme
- Service entity arrangements – are they still accepted by the ATO?
- How to avoid paying capital gains tax on your home when you move out and rent it for a period of time, then sell it
- Why is the ATO often successful in denying car and work-related expense claims?
- Business structures for medical and dental practitioners
- Immediate tax deduction for capital assets costing up to $150,000

Extension to the Jobkeeper Payment Scheme

The government recently announced that it would be extending the Jobkeeper Payment Scheme by a further six months. A summary of the extension and announced changes are as follows:

Jobkeeper Payments

- The scheme will be continued until the 28 March 2021;

- For eligible employees and business participants who were working in the business for 20 hours or more a week on average in the four weeks of pay periods before either 1 March 2020 or 1 July 2020:

  - **From 28 September 2020**, the fortnightly payment rate will reduce from $1,500 to $1,200; and
  - **From 4 January 2021**, the fortnightly payment rate will be further reduced from $1,200 to $1,000

- For all other employees and business participants:

  - **From 28 September 2020**, the fortnightly payment rate will reduce from $1,500 to $750; and
  - **From 4 January 2021**, the fortnightly payment rate will be further reduced from $750 to $650.

- The ATO will have discretion to set out alternative tests where the employee or business participants work hours were not usual during February 2020 and/or June 2020 reference period. For example, due to factors such as the employee being on leave, volunteering during the bush fires or not employed for all or part of February or June 2020.

Requirement to demonstrate decline in turnover

- **From 28 September 2020**, businesses will be required to reassess their eligibility for the scheme with reference to their actual GST turnover in the **September 2020 quarter**. Businesses will need to demonstrate that they have met the relevant decline in turnover test (30% for business with aggregated turnover of $1 billion or less) for the September 2020 quarter (relative to the September 2019 quarter), to be eligible for the Jobkeeper payment from 28 September 2020 to 3 January 2021;

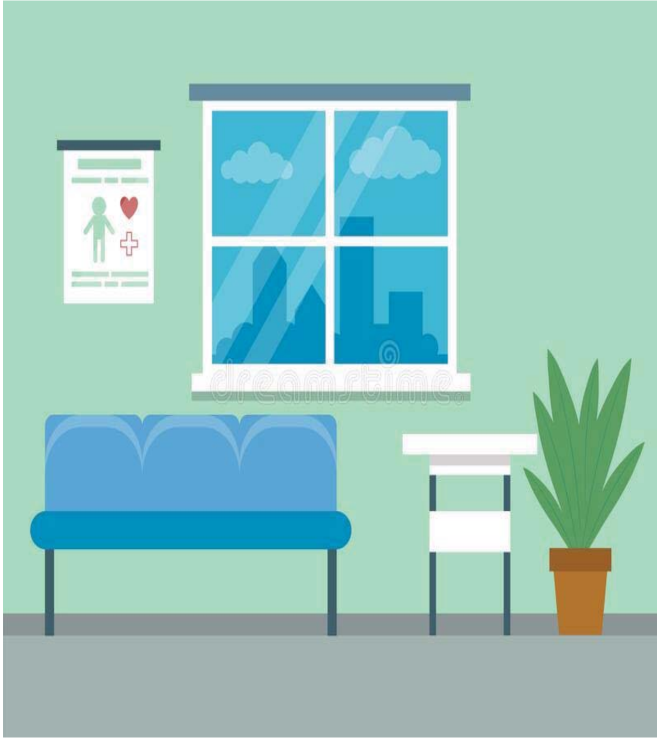
- **From 4 January 2021**, business will need to further reassess their eligibility for the scheme with reference to their actual GST turnover in the and **December 2020 quarter**. Businesses will need to demonstrate that they have met the relevant decline in turnover test for the December 2020 quarter (relative to the December 2019 quarter), to be eligible for the Jobkeeper payment from 4 January 2021 to 28 March 2021;

- The ATO will have a discretion to set out alternative tests that would establish eligibility in specific circumstances where it is not appropriate to compare actual turnover in a quarter in 2020 with actual turnover in a quarter in 2019.

New applicants to Jobkeeper Payment Scheme

- The Jobkeeper Payment Scheme will continue to remain open to new applicants, provided they meet the existing eligibility requirements and the additional turnover tests during the extension period.

No doubt as we get closer to the start date of the extension period, there will be further government announcements in respect of the scheme**.**



Service entity arrangements - are they still accepted by the ATO?

Some medical and dental practitioners have a 'service entity' as part of their business structure. A service entity arrangement is an option for those practitioners who have their own rooms. The service entity (usually a trust or company) employs the non-medical/dental staff, owns or leases the equipment, rents the rooms and incurs the other costs in running the practice. The service entity charges a fee to the practitioner for the services provided. The fee charged is a tax deduction to the practitioner.

The primary reason for having a service entity is asset protection. The risks associated with the activities of the service entity are isolated from the practitioner.

As the service entity is conducting a business, it is entitled to make a profit. Therefore, the fee charged to the practitioner will usually be in excess of the costs incurred. The profit derived, can be distributed to the family members of the practitioner. Therefore, the service trust arrangement can provide tax benefits to the practitioner.

The ATO's published view in respect of service entity arrangements has not changed since their issued guidelines 'Your Service Entity Arrangements' of April 2006. Provided the guidelines are followed, the ATO will generally accept practitioner service entity arrangements.

How to avoid paying capital gains tax on your home when you move out and rent it for a period of time, then sell it.

As a general rule, your home would cease to be your main residence once you stop living in it. However, you can choose to treat your home as your main residence for capital gains tax (CGT) purposes even though you no longer live in it. Provided you satisfy the relevant criteria, you can continue to treat your home as your main residence for:

- Up to 6 years if rented
- Indefinitely if not rented

The criteria to be satisfied is that you can't treat any other dwelling as your main residence, during the period you are not residing in your home (except for a limited time if you're moving house).

Further, due to legislation changes in December 2019, the concession is not available where you are a non-resident at the time the residence is sold. Transitional rules apply and there are exemptions if certain 'life events' occur, such as terminal illness, death or divorce. Therefore, if you move overseas for a period to time and become a non-resident, unless you return to Australia and become a tax resident again, or an exemption applies, the sale of your residence will be subject to capital gains tax.

Subject to the above, the 6-year rule allows you to move out of your home, rent it while you rent somewhere else and then sell it before the 6-year period is up, without having to pay capital gains tax. You could move back into the property and repeat the process again as long as your period of absence from the property does not exceed 6 years.

The concession could be used for example where you decide to move to a rural region for a few years to work. Or you take time off and go overseas or travel around Australia for a year or so.

Why is the ATO often successful in denying car and work-related expense claims?

The ATO's success in denying car and work-related expense claims, is primarily due to the individual making the claim, not being able to provide the required documentation to substantiate the claim. If the substantiation requirements are not satisfied, it does not matter that the expense has been necessarily incurred in gaining the individuals income.

Detailed below is a brief summary of the substantiation requirements for car and work-related expenses:

Car expense substantiation requirements:

For the **'cents per kilometre'** method:

- evidence to support the reasonable calculation of work related kilometres travelled, such as diary entries for the income year;
- details of the work-related travel undertaken, including purpose of travel undertaken, frequency of travel and number of kilometres travelled;
- car registration papers;
- car purchase or lease documents.

For the **'log book'** method:

- current log book, correctly completed, for the representative 12-week period;
- original receipts of all car expenses for the year;
- car purchase or lease documents;
- car registration papers

Work related expenses substantiation requirements:

Generally, where the total for all work-related expenses is less than $300, written evidence is not required. However, you need to be able to show how you worked out your claim. Where the total expense claims exceed $300, written supporting documentation is required.

There are many types of work-related expenses. Below is a link to a Fact Sheet on the ATO Website, which lists a range of work-related expenses and the substantiation requirements for each.

https://www.ato.gov.au/uploadedFiles/Content/IND/Downloads/set-the-record-straight-tax-time-toolkit-poster.PDF

Business structures for medical and dental practitioners

There are a range of possible business structures available to operate a practice. The appropriate structure will very much depend on the circumstances of the practitioner. Different structures have their advantages and disadvantages.

It is important to have the appropriate structure in place from the outset, so as to avoid any potential adverse outcomes as a result of changing the structure.

The possible structures include:

- Sole Trader
- Partnership
- Discretionary Trust
- Unit Trust
- Company

The appropriate structure for the practitioner may be one of the above or a combination of two or more of the above. A 'service entity' for example may be incorporated into the structure.

Factors that need to be taken into account in determining the appropriate structure, include the following:

- the short and long term goals of the practitioner;
- is the practitioner's arrangement one whereby they will be working from a medical centre or dental practice, on an independent contracting basis?
- is the practitioner a medical specialist with their own rooms and staff?
- is the practitioner wanting to establish a medical centre type arrangement?
- are there two or more practitioners going into business together?
- the assets and investments that currently are owned by the practitioner;
- details of the practitioner's family members and related entities;
- the income levels of family members;
- the personal risk exposure of the practitioner;
- the complexity of the structure;
- whether the structure needs to be flexible enough to enable the easy entry or exit of other practitioner owners;
- the tax benefits of the structure; and
- the ongoing costs of maintaining the structure.

From time to time the business structure should be reviewed to ensure it is still appropriate.

Immediate tax deduction for capital assets costing up to $150,000

The $150,000 instant asset write off concession will cease on the 31 December 2020. Provided the required criteria is satisfied, an immediate tax deduction is available for capital assets costing up to $150,000 (net of GST). The immediate deduction applies to each item costing less than the $150,000 threshold. The criteria to be satisfied is as follows:

- the individual or entity making the claim must have an aggregated turnover of less than $500 million;
- the item must be first used or installed ready for use by the 31 December 2020;
- if the item is used partly for private purposes (i.e. motor vehicle), only the business use portion can be claimed and the total cost of the item must be less than $150,000.

The capital item can be new or second hand.

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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