ACCRUE®

CLEAR DECISIVE PROVEN

TAX MATTERS FOR MEDICAL & DENTAL PRACTITIONERS

2021 AUTUMN 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 Autumn Edition

Contents:

If you own a rental property, are you maximising your tax deductions by claiming the ‘building write off’?

If the property was constructed after 17 July 1985 for residential property, or after 20 July 1982 for commercial property, you may be entitled to a building write off claim. The claim is based on the actual construction cost, or if this is not known, you can obtain an estimate from a quantity surveyor or other independent qualified person. The claim is based on a percentage of the construction cost. The amount of the claim varies between 2.5% and 4%, depending on the date on which construction began, the type of property and how the property is used. For residential property the rate has been 2.5% since 15 September 1987.

If after acquiring the property, you make improvements or alterations to the property, i.e. kitchen renovation or bathroom make over, the cost incurred would qualify for the building write off claim.

Warning – Any ‘building write off’ claims, will in most circumstances, impact the calculation of the capital gain or loss on the sale of the property. For Capital Gains Tax purposes, the cost base of the property is reduced by the amount of any building write off claims, where the property was:

- acquired after 7.30pm 13 May 1997, or
- the property was acquired before that time, but any property improvements on which a building write off claim is made, were incurred after 30 June 1999.

Asset protection strategies for practitioners

Asset protection means protecting your home and other assets you own against claims against you. As a practitioner, there is always the risk associated with a patient making a negligence claim. For some practitioners the risk is higher than others due to the field of medicine/dentistry they work in and the type of surgery they perform. For those practitioners operating private practices where they are employing staff, renting premises, financing equipment etc., the risks are increased. Each practitioner's circumstance will differ and this needs to be taken into account when considering potential asset protection strategies. Listed below are some key strategies:

- Have the appropriate level of professional indemnity insurance;
- Ensure your professional skills are kept up to date;
- Have the appropriate level of business insurance, including where applicable worker compensation insurance, contents and building insurance, public liability insurance, business interruption insurance, cyber insurance, director's insurance, equipment and motor vehicle insurance;
- Where practical, ensure the practitioner (the 'at risk' person) does not own assets in their own name;
- Have investment assets held in a discretionary trust, Self Managed Super Fund (SMSF) or in the name of the spouse of the practitioner. It is assumed, the spouse is not also an 'at risk person';
- Have the appropriate business/practice operating structure(s);
- Have good systems and processes in place, which will help to minimise errors;
- Ensure assets and investments are held in the correct legal name;
- Ensure you have an appropriate estate plan.

Beware of Division 293 tax on concessional superannuation contributions

Additional tax (called Division 293 Tax) of 15% is payable on concessional superannuation contributions where an individual's 'adjusted income' for the financial year exceeds $250,000.

The definition of 'adjusted income' includes taxable income, concessional superannuation contributions, reportable fringe benefits, financial investment losses, rental property losses, certain foreign income and tax- free government pensions and benefits.

The Division 293 tax liability notice is issued once the ATO receives the individual's tax return as well as the super contribution information from the individual's super fund. Once received, the individual can choose to pay the tax liability from their own funds, or use an official ATO release authority form to pay the tax using their super money.

Unfortunately, one-off events such as the sale of an investment that results in a large capital gain could result in a Division 293 assessment.

If you are in a position to do so, salary packaging of rental property expenses (where the property is negatively geared) would have the effect of reducing your 'adjusted income', which in turn may reduce your Division 293 tax liability.

Buying an established practice?

The purchase of an established practice is an exciting yet daunting task. It can be stressful, time consuming and comes with significant financial risks.

Before starting to look at practices and talking to sellers it is important to get yourself ‘purchase ready’. The key steps being:

Self-Assessment

- Do you have what it takes to own and operate a practice? First time business owners are often not fully aware of the skills and resources required to operate a successful practice;
- Identify where your business skills may be lacking and upskill if necessary, or alternatively find people you can employee or consult, who have those skills. Your accountant is a good resource to help with this process.

Determine what type of practice you are looking to buy. Is it one:

- you want to grow and develop or one you are happy to continue as is?
- that provides a full range of clinical services or perhaps one that only provides the same clinical services you have;
- with a particular patient demographic;
- in a particular geographic location;
- of a sufficient size to justify engaging a practice manager.

Sort out your financing

- Find out how much you are able to borrow to fund the practice purchase – have finance pre-approved;
- Since the Banking Royal Commission, obtaining finance is a much more challenging and time-consuming process, so allow for this.

Talk to your Accountant

- A good accountant will be able to help guide you through the purchase process and will help determine if the sale price is reasonable. They can also help with the sales negotiation process.
- They will also provide advice on the appropriate business structure for the practice purchase.

Talk to your Solicitor

- If you do not have a solicitor, your accountant should be able to refer you to one who deals with business/professional practice sales;
- A good solicitor will ensure the sales contract is in order and your interests are protected.

Now you have got yourself ‘purchase ready’, you can embark on the hunt for that practice. Below is a listing of some of the information requirements and questions for the seller:

- What is the reason for the practice sale?
- What is the sale price?
- How long has the practice been for sale?
- Would the owner(s) be prepared to stay on after the sale for a transition period and what would be the period?
- What is actually being sold, goodwill, equipment, premises etc?
- If the practice premises are being leased, obtain a copy of the lease and find out if the lease is able to be transferred;
- Would the existing staff be prepared to stay at the practice following the sale?
- Zoning – does council permit a practice to be run from the location?
- If independent practitioners work from the practice under service fee arrangements, will these arrangements continue following the practice sale. Obtain copies of practitioner service agreements.
- Copy of current year and three prior years financial statements of the practice along with tax returns.

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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