TAX MATTERS FOR MEDICAL & DENTAL PRACTITIONERS

2021/2022 SUMMER 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 Summer Edition
Contents:

If you co-own a practice, do you have an ownership agreement?

An 'ownership agreement' is a document between the owners of the practice and contains agreed terms as to how the practice is to be managed.

The key purposes of an ownership agreement are:

- to help avoid potential conflict between the owners
- to provide a clear process on how certain identified matters are to be dealt with.

Examples of matters that may be included in the agreement:

- the processes to be followed if an owner wants to exit the practice.
- decisions which require unanimous agreement i.e., selling the practice, admitting another owner.
- owner's entitlement to benefits such as annual, personal, long service and sabbatical leave.
- the $ amount of a practice expense which requires the approval of all owners i.e., expenses over $5,000.
- the process to be followed to resolve owner disputes.
- if required, who is to be appointed to prepare a valuation of the practice.

It is recommended that an 'ownership agreement' be prepared by a solicitor who has expertise in drafting such documents.

Why you are paying PAYG Tax Instalments?

As a contract medical or dental practitioner, the income you receive will not have tax withheld, as would be the case if you were an employee of the clinic.

If you are operating as a sole trader, the contracting income you receive is required to be included as assessable income in your tax return. Against which, you can claim any expenses incurred in deriving your income, such as service fees, professional indemnity insurance, professional memberships, conference expenses etc. The income amount received less eligible expenses, will represent your net assessable business income, and will be taxed at your marginal tax rate.

If it is your first tax year working as a contractor and your business income is over a certain threshold, the ATO will place you into the PAYG Tax Instalment System. You will generally enter the PAYG Instalment system if your business income for the year is $4,000 or more. **Unless your circumstances change, you are not able to opt out of the PAYG Instalment Tax system**.

Being in the PAYG Tax Instalment system will mean paying tax on a quarterly basis, based on the amount of tax you paid in your last lodged tax return. Paying PAYG Instalment tax will generally mean you won't have to pay a large additional tax bill when you lodge you tax return.

In working out your tax liability for the year, you will receive a credit for the PAYG Instalment Tax paid in respect the year the instalments relate. For example, for your 2021 Tax return, you will receive a tax credit for the PAYG Instalment Tax paid for the quarters ended 30 September 2020, 31 December 2020, 30 March 2021 and 30 June 2021.

How is the capital gain on the sale of an investment property calculated?

The sale of a rental property acquired on or after 20 September 1985 will trigger a Capital Gains Tax (CGT) event, resulting in a capital gain or loss for capital gains tax purposes. The capital gain or loss amount is broadly calculated as the difference between the 'capital proceeds' received from the sale and the 'cost base' (or reduced cost base) of the property.
Any building write-off claims, will in most circumstances, reduce the cost base of the property, 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.

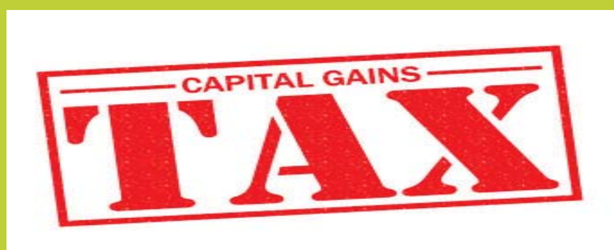
The 'Capital Proceeds' received will include:

The sale price per the contract **less** agent fees, legal fees, advertising and marketing costs.

The 'Cost Base' of the property will include:

- the purchase price, per the contract.
- stamp duty and legal fees paid on the purchase of the property, unless a tax deduction has been claimed on these costs (if the property is located in the ACT, these costs are able to be claimed as a deduction in year of purchase, as land in the ACT is leasehold, not freehold)
- the cost of any improvements to the property, which were not claimed as repairs.
- any 'second hand' items acquired after 1/7/2017.
- as noted above, if building write off claims have been made and the property was acquired after 7.30pm 13 May 1997, the claims made are deducted from the properties cost base.

If the property has been held for more than 12 months, the capital gain amount is discounted by 50%. It is important to note that for CGT purposes, the 12-month period is measured between contract date for purchase and contract date for sale.



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If you are deriving foreign income, are you including it in your Australian tax return?

If you are an Australian resident for tax purposes, you must declare income you earn anywhere in the world in your Australian tax return. This is known as your world-wide income. It includes income that may have already been taxed in the country of origin. It does not matter that the income derived is still held overseas. It includes any foreign income you may have derived, such as:

- interest
- dividends
- royalties
- rent
- business income
- share of income from a partnership or trust
- pensions and annuities
- capital gains on overseas assets.

You will receive a tax credit in respect of any tax paid in the country the income was derived. To be eligible for this foreign income tax offset, you must:

- have paid the tax on the income overseas.
- have records to prove that the tax has been paid.

If you have expenses associated with your foreign income, these are generally able to be claimed as a tax deduction against the foreign income.

The Australian Taxation Office has exchange of information arrangements with a number of countries which helps to ensure foreign income derived by Australian residents, are correctly reported in their Australian tax return.

Have a HELP Debt? Compulsory repayments commence once your income exceeds a certain threshold

If you have a HELP debt, be aware that once your income exceeds a certain threshold, you will commence to repay the debt through the tax system on the lodgement of your income tax return.
The amount of the repayment is set so that the higher your income, the higher the level of repayments.

For the 2021/2022 year the repayment income thresholds and rates are as follows:

Repayment Income	Repayment Rate
Below $47,014	Nil
$47,014 - $54,282	1.0%
$57,539 - $60,991	2.0%
$60,992 - $64,651	2.5%
$64,652 - $68,529	3.0%
$68,530 - $68,529	3.5%
$68,530 - $72,641	4.0%
$72,642 - $77,001	4.5%
$77,002 - $81,620	5.0%
$81,621 - $86,518	5.5%
$86,519 - $91,709	6.0%
$91,710 - $97,212	6.5%
$97,213 - $103,045	7.0%
$103,046 - $109,227	7.5%
$109,228 - $115,781	8.0%
$115,782 - $122,728	8.5%
$122,729 - $130,092	9.0%
$130,093 - $137,897	9.5%
$137,898 and above	10.0%

Repayment income is defined as taxable income plus any total investment loss (which includes net rental losses), total reportable fringe benefits, reportable super contributions and exempt foreign employment income**.**

Example. If you have a HELP debt of $50,000 and your 'Repayment Income' for the 2021/2022 year is $110,000, your HELP debt repayment would be $8,800 (i.e. $110,000 X 8%). This repayment amount would show as a debt on your 2022 year income tax assessment notice.

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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