

Holmans have put together a series of specific questions and issues that health practitioners face, and have provided a guide as to the things you should be considering.

1. Medical Practice – Should I use an incorporated structure or a medical partnership?

This is a common question faced by growing medical practices. Of course, there are advantages and disadvantages of both structures.

Generally speaking, a company offers some asset protection not offered by a medical partnership. As you are aware, health practitioners are at least partially personally liable for their actions, whether they operate through a company structure or a medical partnership. However, in a medical partnership you can also be found personally liable for the actions of other partners (medical practitioners) you are in business with. A medical company can offer some protection from the actions of other practitioners.

Some of the key advantages of a company include:

- No need to change the business structure when one doctor/medical practitioner leaves or joins.
- You can continue to use the same business ABN and TFN.
- Excess profits (income earned by non-owner practitioners) can be distributed by way of dividends to related parties (i.e. Spouse) and entities (i.e. Family Trust).
- Can offer some additional benefits through salary packaging.
- Practitioners can hold different interests in the business (eg. Doctor A holds 40%, Doctor B holds 25%, Doctor C holds 35%).
- May be more attractive to a prospective purchaser – ease of takeover.

Some of the key disadvantages of a medical company include:

- Companies need to comply with the Corporations Act and any legislation tacked on to the same, for example Work Choices Legislation. The government can effectively change the landscape in which you operate overnight.
- Compliance costs tend to be greater. However, the larger the practice, the smaller the difference.
- Care must be taken when structuring the method of remunerating the owners to ensure Payroll Tax is kept to a minimum (or avoided, if possible).
- Costly and complex to wind up.
- Shareholder agreements are required to formalise the relationship between the owners.

Holmans can assist in guiding you through the above, so the most appropriate operating structure is chosen for your particular circumstances.

Of equal importance is whether a Service Entity is used or not (see question 2).



2. Service Entities – Should I and can I use one?

Yes, you are able to use a Service Entity. A service entity is another entity (normally a trust or company) that employs all the administration staff (non-practitioners), purchases and operates all the equipment, leases premises and so-on.

The health practitioners are then charged a fee (including a mark-up) by the service entity for the use of those services. Often, this will result in a small profit being earned by the service entity which can then be split with related parties (i.e. Spouse) and related entities (i.e. Trusts and Companies).

The Australian Taxation Office has released strict guidelines on what level of profit is considered reasonable. In regional areas, service fees representing 45% of gross fees is generally considered reasonable.

3. Personal Services Income (PSI) – Do I need to disclose all my health practitioner income in my tax return or can it remain in the company/trust?

Generally speaking, all income earned by you as a health practitioner must be included in your individual income tax return. Essentially, any income earned from personal exertion or expertise must be included in the tax return of the person deriving that income. This often means there is no ability to split income of the doctor/health practitioner with their spouse. It does not matter whether you pass the “80/20” Rule.

If you are using the “80/20” rule as a means of justifying a split of income with your spouse, you may be penalised on review by the Australian Taxation Office.

4. Income Splitting – Can I split my income with my spouse?

Holmans recommend you seek specific advice in relation to your particular circumstances, as each situation is different. Depending on your structure and the PSI restrictions outlined at Question 3, there may be a few limited options to legally split a small proportion of your income with your spouse.

Where you operate a Medical Practice and the business generates “business” net income after remunerating the medical practitioners, there are options for “splitting” income to related parties or entities.

5. I’m a medical practitioner contracting to a medical practice – Should I use a Trust, Company, be a Sole Trader or an Employee?

Each of the options above has its advantages and disadvantages. Importantly, it is not just about what you intend to do with your “employment” situation, but also what other entities and investments you have, your short term goals and the considerations of the medical practice hiring you.

For simplicity, you can’t go past an employee arrangement. You will have someone else deduct your tax (PAYG withholding) from your weekly gross fees, you will have 9% superannuation paid on your behalf and you do not need to worry about GST. Unfortunately, in most cases, the employer does not want you to be an employee for a few main reasons – Workcover, superannuation obligations and payroll tax.

The other options must be considered on a case by case basis. A company or trust can offer a medical practitioner options such as salary packaging. However, they will be more expensive to run and maintain. Most subcontractor doctors in the past were forced to use companies, as this assisted the employer avoid payroll tax. This is no longer an effective method of avoiding payroll tax.

6. Salary Packaging – Should I be salary packaging/sacrificing?

Salary packaging can be a very effective way to minimise your tax. This is particularly relevant for hospital employees. This is because hospital employees are exempt from Fringe Benefits Tax to certain limits and accordingly, can receive the benefit (i.e. car expenses) tax free. If you are a hospital employee, you will have received information about the same at the time you commenced your employment. You should seek advice in relation to your options.

For health practitioners who are not employed by a hospital, it can still be a very effective means of legally reducing your tax liability. Health practitioners frequently salary package motor vehicles through a company or trust. This essentially provides the medical practitioner with a partial deduction for the motor vehicle, even though it might be 100% privately used.

There are other options available also. You should seek advice in relation to your personal situation.

7. What should I salary package?

If you are a non-hospital employee, then motor vehicles, superannuation and laptop computers are common.

If you are a hospital employee, the range of options is much larger, including groceries, home loan repayments and memberships. Of course, you should seek advice from Holmans in relation to your particular circumstances.

8. GST – Are medical services GST Free?

Yes, the provision of medical services is GST free. A medical service can best be described as anything covered by Medicare. There are other exemptions pertaining to medical services, but in most cases, if it is covered by Medicare, it is GST Free.

Often a health practitioner will subcontract to a larger medical practice and that medical practice remains the “owner” of the patient. In cases such as this, a health practitioner is deemed to be subcontracting employment services (not medical services) and accordingly, must charge GST on their time.

The medical practice will be GST free, as it is the one providing the service to the patient. The opposite arrangement can also occur. If you have any doubt on the services you are providing and whether they are subject to GST, you should seek advice from Holmans.

9. Payroll Tax – Are sub-contractors included for payroll tax purposes?

In some cases, yes. This is a common trap for small and growing medical practices. Medical practices that hire subcontractor doctors/health practitioners (whether through a company, trust or as a sole trader), must include the subcontractor fee, excluding GST, in the calculation of Payroll Tax Wages.

Exemptions can apply where the sub-contractor doctor is through a placement agency or is under a specific type of employment contract, but must be assessed on a case by case basis.

Where the wages, superannuation and subcontractor fees (plus other eligible costs) exceed one million dollars (QLD limit), the business will be liable for Payroll Tax. For more advice, contact our office.

10. Can I claim my vaccinations as a deduction?

No, a deduction is not allowable for the cost of vaccinations to protect yourself against the risk of contracting infectious diseases in the work place, as the expense relates to a personal medical expense, and is therefore of a private nature – according to the Australian Taxation Office at least.

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- Experience in your industry.
- A guarantee to return phone calls and emails within 24 hours.
- A proactive approach to reducing your tax liability and increasing your wealth. Holmans contact all our clients prior to 30 June to perform tax planning. After year end, your accountant is simply recording history and their ability to save tax is limited.
- A five (5) page Key Performance Indicator report for your medical practice, standard with your yearly Financial Statements and Income Tax Returns.
- Your Financial Statements and Income Tax Returns copied to a disc, so that your records can be safely and easily stored.
- A team of accountants, with different specialties, to ensure your specific requirements are met.
- A “One-Stop” approach to managing your financial success, giving you access to specialist Financial Planners, Mortgage Brokers and Insurance Brokers where required.
- The option of quarterly reviews and management meetings for your medical practice, including setting and monitoring budgets, and benchmarking your business against set performance levels. See an example of the benchmarks on our website.
- Regular communication.
- Commitment to giving back. Holmans believe it is important to give back to the local community and through various fundraising events has raised thousands of dollars for local organisations and charities.

Holmans are confident we can save you tax and build your wealth. Contact Holmans to make an obligation free appointment to discuss your particular circumstances.

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