

DENTISTS AND THE TAX MAN

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John Knight

j.knight@uhyhn.com.au



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Top 5 Similarities between tax and dentists

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#1

**Both can
cause you
incredible
pain**

#2

**Both cost you
what seems to
be a lot of
money**

#3

**Both involve
an annual
ritual**

**(unless you get some aches
and pains in the interim)**

#4

**Preventative
actions will pay
off in the long
term**

#5

**If you miss your
check-up you are
likely to get
penalties/fillings**

Overview

Employee v Contractor

Tax Deductions

GST

Tax Timing

Tax Planning Strategies

The Next Step

Other things to consider

Employee

Simplest structure

Signed employment agreement

Gross wage

(fixed agreement or % of fees)

Tax withheld (PAYGW)

Super also paid (inc or exc)

Payment Summary

Contractor

Question of fact!

Control over the worker

(does the payer have the right to direct how, when and where and who is to perform the work?)

Paid for time worked or for a result?

Ability to subcontract or delegate work

Services performed as specified

(additional services are performed by agreement)

Contractor

Contractor bears legal risk in respect of the work and must remedy any defective work at their own expense

Contractor generally provides their own tools & equipment

Tax Rates

Are you entitled to an ABN?

Carry on a business / enterprise or Company

- **Enterprise - an activity or series of activities done in the form of a business**
- **Indicators of a Business:**
 - ✓ **Significant commercial activity**
 - ✓ **Recurrent / regular nature**
 - ✓ **Activity is systematic, organised & carried on in a business like manner**
 - ✓ **Activities are of a reasonable scale**

GST

ABN v GST

**Must register if your GST turnover is
greater than \$75,000**

(you can choose to register)

**Provision of dental services are generally
'GST-Free'**

**'GST-free' means GST is not payable on
income but entitled to claim GST paid**

A supply is GST-free if

- 1) it is a service of a kind specified below**
- 2) the supplier is a recognised professional &**
- 3) the supply would generally be accepted as necessary for the appropriate treatment of the supply:**

- dental**
- nursing**
- optometry**
- paramedical**
- psychology**
- dietary**
- occupational therapy**
- osteopathy**
- pharmacy**
- physiotherapy**

Note the service must be the provision of those actual services listed & not just something similar

GST

Note - invoices issued to you by your practice include GST as you are receiving income from the practice and not direct from the patient / private health fund

Cash v non-cash

Monthly v Quarterly v Annual

BAS

Contractor Consequences

**Responsible for paying your own tax
(money is in your hands for longer)**

**Responsible for paying your
own super but are not required to
(cash in your hands, not locked in super)**

Higher compliance costs

Ability to claim GST on expenses

No leave entitlements

WARNING:

**Double Whammy
of Tax Ahead**

(Contractors beware)

Deductions

There must be a nexus between deductible expenses and deriving taxable income

- **Protective clothing / uniforms**
- **ADA / Professional Memberships**
- **Equipment (but may need to be depreciated i.e. loupes)**
- **Accounting Fees**
- **Home Office?**

Deductions

- **Professional indemnity insurance**
- **Income protection insurance**
- **Gifts & donations**
- **Work-related journals, periodicals & magazines with content specifically related to dentistry**
- **Lab fees - only if they are not deducted before your gross commission is calculated**

Deductions

Courses & Conferences:

- **Deductible where they:**
 - **are incurred in keeping up to date or to better enable you to perform your current duties**
 - **For a new qualification, must be high degree of probability it will increase earnings**

Deductions

Courses & Conferences:

- **Where there is a professional & private element to a conference, it is the intention or purpose of the taxpayer that is used to determine deductibility**
- **Deduction is not allowed for costs to become a specialist as it is a 'new income-earning activity'. This differs to specialising in an area as a general dentist - deductible**
- **Self-improvement & personal development courses are generally not deductible**

Deductions

- **Courses & Conferences:**

- **Expenses that are deductible:**

- **Course fees**

- **Costs of textbooks, photocopying etc**

- **Fares incurred in overseas travel (any private portion is non-deductible)**

- **Motor vehicle expenses incurred in (a) travelling between home & an educational facility & back again (b) place of work to an education facility and back**

- **Meals and accommodation where you are required to sleep away from home**

Deductions

Motor Vehicle Expenses:

- **Trips between two separate places of employment**
- **Trips between work & home when you need to carry bulky tools or equipment**
- **A dentist was entitled to a deduction for travel between home and a dental surgery as he was transporting “sensitive, valuable and potentially embarrassing items”**

Deductions

Methods for claiming motor vehicle expenses:

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	Cents per Km	12% of Original Cost	1/3 rd of actual expenses	Log Book
Requirements for eligibility	None - note only a maximum of 5000 business km can be claimed	More than 5000 business km must be travelled	More than 5000 business km must be travelled	A log book will need to be kept for a minimum of 12 weeks
Deduction basis	Number of Business Km travelled	Original Value of the motor vehicle	The running cost of the motor vehicle e.g. fuel, services etc	The running cost of the motor vehicle eg fuel, services etc
Calculation	Business km travelled x Relevant cents per km	Original Value of the motor vehicle x 12%	The running cost of the motor vehicle x 1/3	The running cost of the motor vehicle x % of business use
Do expenses have to be substantiated	NO	NO	YES	YES

**Note: Luxury Car Threshold
(GST and Income Tax implications)**

Tax Reduction

Planning v Avoidance

Negative Gearing:

- Shares / managed funds
- Rental properties

Home Loan v Deductible Debt

Private health insurance hospital cover – avoids MLS when your income is > \$77,000 or \$154,000 for couples

Super contributions for contractors or salary sacrifice for employees

HECS Debt – 10% discount on voluntary repayments (current budget is looking to reduce this to 5% from 1 July 2012)

Next Step – Your own Practice

What is the right structure now and for future changes in ownership or buy-in (Company, partnership, trust)

What is the best way to finance this from a tax perspective?

What accounting systems do I need to have in place?

Systems and controls

Asset Protection and Risk

Breakeven Position

Leverage

Premises

Other Stuff

PI Insurance

**Income Protection, Life,
Disability Insurance**

Investment Strategies

Record Keeping

Anti-avoidance

FBT

Top 5 Tips for Dentists

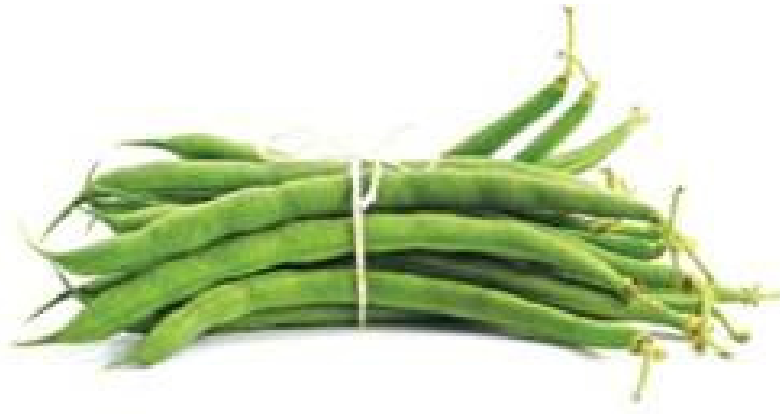
- 5. Get advice upfront (not after you start)**
- 4. Contractors: Do not spend everything you earn (put some cash aside)**
- 3. Find advisers you are comfortable enough with to ask the silly questions.**
- 2. Keep good records so you can claim every possible deduction**
- 1. Get an idea of how much tax you will be paying and when it is due.**

Q. Is Dental Treatment Tax Deductible?

A. Yes, all amounts spent on your health, be it medical, dental, optical chiropractic, physiotherapy or pharmaceutical, are a legal legitimate deduction. The first \$1500 spent on your health care needs is taken as given and are covered in your general exemption, but amounts over that are claimable deductions at the rate of 20%. Also you will need to make allowance for any health fund rebate you may receive. If you are required by your terms of employment to provide a certificate that you are “dentally fit”, it may be that any treatment to maintain your dental fitness is 100% deductible as a work related expense. ***Check with your accountant!***

Quote: Dr Richard Skinner at www.denstistskinner.com.au

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John Knight

j.knight@uhyhn.com.au

Chris Williams

c.williams@uhyhn.com.au

www.uhyhnbrisbane.com.au

07 3210 5500

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