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What to do when the PSI rules apply

When the PSI rules apply to your income, they affect how you report that PSI and the deductions you can claim.

Completing your tax return when receiving PSI

If you earn personal services income (PSI), you need to complete specific questions in your tax return and schedules.

Claiming deductions when receiving PSI

Earning personal services income (PSI) may affect the types of deductions you can claim.

How to attribute PSI

PSI needs to be attributed if it is earnt through a company, partnership or trust and the PSI rules apply.

PAYG when receiving PSI

If you or your business receives personal services income (PSI), you may have additional PAYG withholding obligations.

QC 46037

Completing your tax return when receiving PSI

If you earn personal services income (PSI), you need to complete specific questions in your tax return and schedules.

Last updated 23 November 2022

How to complete your tax return and schedules if you've earned personal services income (PSI).

Overview

If you are earning PSI, then you need to report this as PSI in your tax return even if you are a personal services business (PSB) and the PSI rules don't apply to you.

How you report your PSI depends on whether the PSI rules apply to your income, and whether you operate as a sole trader, company, partnership or trust.

You need to complete reconciliation labels in a company, partnership or trust tax return if the PSI rules apply to your income.

Individual tax return (sole traders)

If you're operating as a sole trader, you report any PSI you've received in your individual tax return. You can do this online through myTax or via a registered tax agent.

If you're using myTax to lodge your tax return, you need to complete the PSI section.

You may also need to complete the **Business payment summaries** section.

If you're required to complete the *Business and professional items schedule,* you cannot lodge a paper tax return.

Company tax return

If you operate through a company, you need to report any PSI the company received in your Company tax return.

When lodging your company tax return, you need to complete:

- Item **6 Calculation of total profit or loss** and include all personal services income and related expenses
- Item **14 Personal services income** (if you answer no at **N** for this item, you are finished with this question).

Partnership or trust tax return

If you operate through a partnership or trust, you need to report any PSI received by the relevant entity on either a Partnership tax return or a Trust tax return.

When lodging your partnership or trust tax return, you need to complete:

- Item **5 Business income and expenses** and include all personal services income and related expenses
- Item **30 Personal services income** (if you answer no at **N** for this item, you are finished with this question).

These items are the same for both partnership and trust tax returns.

Completing reconciliation labels

If you're a company, partnership or trust, and the PSI rules apply to your income, you also need to complete reconciliation labels in your business tax return.

QC 17567

Claiming deductions when receiving PSI

Earning personal services income (PSI) may affect the types of deductions you can claim.

Last updated 22 May 2023

If you earn PSI and the PSI rules apply to that income, the types of deductions you can claim may be affected. Before working out what deductions you can claim, you need to work out if you are earning PSI and if the PSI rules apply to you.

In general, when you earn PSI you are treated as though you are in the same position as an employee.

This means your business may claim deductions against PSI received, if:

- the expenses are incurred in producing the income
- you (as an individual who earns the income) would be entitled to the deduction.

This applies to all PSI, whether it is earned as a sole trader or through a company, partnership or trust.

You must keep records of your transactions, including expense claims for 5 years after they are prepared, obtained or completed, whichever occurs later. You will also need to show whether the expenses relate to PSI or other income.

Where PSI is generated by more than one individual in a business, you need to allocate the deductions which relate to the income received by each individual.

For more information, see TR 2003/10 *Income Tax: deductions that relate to personal services income*.

Deductions that can't be claimed against PSI

When the PSI rules apply, you cannot claim deductions against the PSI for the following:

- rent, mortgage interest, rates and land tax
- payments to associates for non-principal work
- super contributions for associates for non-principal work.

Rent, mortgage interest, rates and land tax

Deductions cannot be claimed for rent, mortgage interest, rates and land tax for a residence, where those expenses relate to a person's PSI.

Example: deductions not claimable under PSI rules

Sarah has recently set up a business called Sarah's Financial Services, where Sarah provides financial advice and completes tax-related forms including business activity statements and tax returns. Sarah operates this business from one of the rooms in her house.

All of the income generated is PSI as most of the income relates to Sarah's skills, knowledge and expertise. Sarah has self-assessed that the business does not meet any of the PSB tests and therefore the PSI rules apply to that income.

Since the PSI rules apply, Sarah cannot claim rent, mortgage interest, rates or land tax relating to her residence.

Payments to associates for non-principal work

Payments made to an associate (for example, spouse, child or other relative) cannot be claimed as a deduction for performing non-principal work.

Principal work is the work a business must perform under a contract to receive payment.

Non-principal work is incidental or support work that is not central to meeting obligations under a contract. For example, bookkeeping, issuing invoices, administrative duties and running the home office.

Payments to associates include:

- remuneration such as a salary or commission
- an allowance
- reimbursement of an expense
- rent
- interest on a loan.

Example: non-principal work

Rodri generates PSI by providing marketing consultancy services, which is the principal work. Rodri employs his wife, Jenna to assist in the business. Jenna issues invoices, bank receipts and administers the home office, but does not perform any marketing consultancy services.

Rodri can't deduct the wages he pays to Jenna because issuing invoices, banking and administering the home office is not principal work.

Super contributions for associates for non-principal work

Super contributions for an associate (for example, spouse, child or other relative) cannot be deducted, if the associate does non-principal work such as, bookkeeping, issuing invoices, administrative duties and running the home office.

However, super contributions for an associate can be deducted, if the associate does principal work which contributes to the PSI. Deductions are allowed up to the minimum percentage that you would have to contribute to meet superannuation guarantee (SG) requirements for that associate.

You can contribute more than the SG minimum percentage if you pass the employment test in engaging an associate, as you will be a personal services business (PSB) and the PSI rules won't apply to that income.

If an associate completes work that generates income that is not PSI, super contribution deductions for that work are not affected by the PSI rules. The PSI rules don't affect super contribution deductions that are made for yourself.

The term 'super contributions' refers to contributions you make to a super fund or retirement savings account. Deductions for super contributions are subject to other tax rules.

Example: paying super contributions for an associate doing non-principal work

Wendy is an editor who does editing and proofing work. Wendy has little spare time and decides to get her brother, Jack to do the bookwork and issue invoices for work she completes.

Jack's salary is $10,000 for the 2022–23 financial year. Wendy checks the SG percentage rate for that year and contributes $1,050 to a super fund for Jack.

> 10.5% super guarantee × $10,000 = $1,050

As Jack is an associate (he is Wendy's brother) and he performs non-principal work (bookwork and issuing invoices are not the main work clients pay for), Wendy cannot claim a deduction for the $1,050 super contribution (or for Jack's salary).

Example: paying super contributions for an associate doing principal work

David is an engineer who produces PSI. Most of David's income is for his knowledge, skills and expertise.

David hires Mary (an associate of David's) to perform principal work. Mary completes 5% of the principal work (by market value) and is paid a salary of $5,000. David contributes $2,500 to a super fund for Mary.

David is not entitled to claim a deduction for the full amount he contributes to the super fund for Mary. The deduction he is entitled to is capped at the amount he would have had to contribute in order to avoid an individual SG shortfall for Mary. This is the SG percentage of her total salary payments. In this case, in the 2022–23 income year, the allowable deduction is:

> 10.5% super guarantee × $5,000 = $525

However, if David meets the employment test and is a PSB by employing Mary, David can claim the entire $2,500 as a deduction.

Allowable deductions when receiving PSI

Deductions can only be claimed, if an expense is paid or incurred in gaining or producing assessable income. The expense cannot be a capital, domestic or private expense.

As a sole trader, you claim deductions directly against your PSI in your individual tax return.

If the PSI is earned through a company, partnership or trust, the business reduces the amount of PSI that it attributes to an individual by the amount of the deductions. The deductions are for expenses that are incurred in gaining that individual's PSI.

There are additional rules for entity maintenance deductions and car expenses.

Examples of allowable deductions include:

- gaining work – for example, advertising, tendering and quoting for work
- registration and licensing fees
- insuring against loss of income, earning capacity or liability for acts or omissions in the course of earning income
- public liability and professional indemnity insurance
- salary or wages and other expenses in engaging an arm's length employee or contractor (not an associate)
- reasonable amounts paid to an associate for principal work
- complying with workers compensation law
- super contributions for the benefit of the individual or an arm's length employee (not an associate)
- running expenses for a home office – for example, heating and lighting (but **not** rent, mortgage interest, rates or land taxes)
- depreciation of income-producing assets - you may qualify for simplified depreciation rules for small business
- bank and other account keeping fees and charges
- tax-related expenses, such as the cost of preparing and lodging tax returns or activity statements
- meeting obligations under GST.

Additionally, if the PSI is earned through a company, partnership or trust, the business is entitled to claim entity maintenance deductions. These are:

- fees or charges associated with a bank, credit union or other financial institution account (but not including interest or interest-like amounts)
- tax-related expenses (for example, preparing and lodging tax returns and activity statements)
- any expense incurred for preparing or lodging a document under Corporations Law, except where the payment is made to an associate
- statutory fees.

This is not a complete list, as what can be claimed depends on how the income is earned.

Car expenses

Companies and trusts can normally claim all their motor vehicle expenses, although private use of their vehicles is generally subject to fringe benefits tax (FBT).

A special PSI rule is added for businesses with motor vehicle expenses, specifically for cars. If your personal services are contracted through a company, partnership or trust and the PSI rules apply, your business is only allowed to claim expenses (including FBT payments) for one car if the car is used for private purposes.

If your business has more than one car in private use at the same time, you must choose only one car to claim deductions for. This choice remains in effect for as long as your business has that car.

Where 2 or more individuals work through one company, partnership or trust, the business is able to provide one car to each individual for private use. This only applies if each of the individuals are performing their own work and it is not part of the other individual's work.

Businesses are still entitled to a deduction for car expenses for one or more cars provided to an individual, where there is no personal use of the car.

Non-deductible expenses

Non-deductible expenses cannot be claimed against your PSI. These expenses cannot be used to reduce PSI attributed to the individual, which is included in their individual tax return.

To prevent double taxation, where you make a payment to an associate (for example, a salary payment) that is non-deductible under the PSI rules, the amount received by the associate is not included in their assessable income.

Example: salary not deductible

Julie is a sole trader, who pays a salary to Frank to do the bookwork and run the home office (that is, non-principal work). Julie is not entitled to claim a deduction for the salary she pays to Frank because he is not performing principal work.

As Julie cannot claim a deduction for the salary she pays to Frank, the salary Frank receives is not included in his income tax return as assessable income. Any PAYG withholding tax Julie pays on behalf of Frank is credited to Julie when she completes her individual tax return.

Fringe benefits tax on non-deductible expenses

If you have to pay fringe benefits tax on an expense that is non-deductible under the PSI rules, the taxable value of the fringe benefit is reduced by the non-deductible amount.

QC 46085

How to attribute PSI

PSI needs to be attributed if it is earnt through a company, partnership or trust and the PSI rules apply.

Last updated 23 November 2022

Overview

If your business operates as a company, partnership or trust, and the personal services income (PSI) rules apply: You need to attribute or treat any PSI received as belonging to each individual who produced the income.

If your business operates as a sole trader: You do not need to attribute PSI, as the income is already reported in your individual tax return.

Follow the 5 steps below to attribute PSI.

For more information about attributing PSI, see TR 2003/6 Income Tax: attribution of personal services income.

Step 1: Identify the amount of PSI received

Work out whether individuals working for your business have generated PSI, and if so, how much.

See Income that is PSI for more information about what income is PSI.

Step 2: Subtract any salary or wages

Subtract any salary or wages that has been promptly paid to each individual who produced the PSI.

Promptly paid means paying an amount by the 14th day after the relevant PAYG payment period during which the PSI was received by your business.

See PAYG when receiving PSI for more information.

Example: promptly paid

A business lodges activity statements quarterly, and that business receives PSI in the January to March quarter. In this case, promptly paid would mean the salary or wages were paid to the individual who performed the services by 14 April.

Step 3: Consider any excess entity maintenance deductions

If your business earns other income that is not PSI, it needs to deduct the entity maintenance deductions from other income first, before subtracting any remaining amounts from the PSI.

Entity maintenance deductions are certain allowable deductions associated with running your business, for example:

- fees for opening, managing, or closing a bank account
- tax-related expenses.

When 2 or more individuals each generate the PSI, use the following formula to apportion any excess entity maintenance deductions between them:

(Excess entity maintenance deductions × individual's PSI) ÷ Total PSI

See Claiming deductions when receiving PSI for more information about this step.

Example: allocating excess entity maintenance deductions

Jo and Jim are engineers who work through their company Jo and Jim's Engineering Services Pty Ltd. The business received $50,000 PSI ($20,000 for Jo's services and $30,000 for Jim's services). The business has $1,000 of excess entity maintenance deductions which would be allocated as follows:

Jo	Jim
($1,000 × $20,000) ÷ $50,000	($1,000 × $30,000) ÷ $50,000
= $400 entity maintenance deductions	= $600 entity maintenance deductions

Therefore, Jo is entitled to a $400 entity maintenance deduction, and Jim a $600 entity maintenance deduction.

Step 4: Subtract any allowable deductions

If you work out that an expense your business incurred is an allowable deduction (including payments to associates for principal work), subtract this amount from the PSI you received.

Your business needs to work out the allowable deductions relating to each individual's PSI. The allowable deductions that relate to each individual should be subtracted from their PSI.

See Claiming deductions when receiving PSI for more information about this step.

Step 5: Attribute the net PSI

Positive net PSI

If there is a positive amount of PSI after completing all the previous steps, this amount will need to be attributed to the individual who produced that PSI.

Your business would give the individual a PAYG payment summary or income statement. The individual then needs to declare this amount in their individual tax return.

If you operate as a company, do not include the net PSI amount that has been allocated to the individual as assessable income in your company tax return. Instead, report the net PSI amount as a reconciliation item under **Other income not included in assessable income** in your company tax return. This avoids double taxation.

Partnerships and trusts include the net PSI amount as a reconciliation item, under **Income reconciliation adjustments** in the partnership or trust tax return.

Net PSI loss

If there is a negative amount of PSI (a loss) after completing all the previous steps, this net PSI loss must be transferred to the individual. Your business cannot use this loss against any other business income, or carry forward the loss.

The individual can claim this loss as a deduction in their individual tax return. If the individual does not have enough other income in that year to offset the loss, the individual may carry this loss forward under the carried forward loss rules.

Companies include the net PSI loss amount as a reconciliation item in the company tax return, under **Non-deductible expenses**. Partnerships and trusts include the net PSI loss amount as a reconciliation item, under **Expense reconciliation adjustments** in the partnership or trust tax return.

See Completing your tax return when earning PSI for more information about this step.

Example: attributing PSI where one individual generated the PSI

Sandi is an architect who works through her company Sandi's Architecture Services Pty Ltd. Sandi completes 2 contracts on behalf of Sandi's Architecture Services Pty Ltd, generating $40,000.

This $40,000 is PSI, and Sandi has also worked out that the PSI rules apply. In addition to the PSI, the company earned $2,000 in interest income.

Sandi's Architecture Services Pty Ltd:

- promptly paid $30,000 to Sandi as salary or wages
- incurred $20,000 in allowable deductions
- incurred $5,000 in entity maintenance deductions.

The attributed amount is worked out as follows:

- $40,000 PSI is received by the company
- $30,000 salary or wages promptly paid to Sandi
- $3,000 entity maintenance deductions remaining after offsetting them against the other income first (the $5,000 entity maintenance deductions is first offset against the $2,000 interest income, leaving $3,000)
- $20,000 allowable deductions
- **−$13,000 (net PSI loss)**

The income position of Sandi's Architecture Services Pty Ltd would be as follows:

PSI	$40,000
PSI deductions	$50,000 ($30,000 promptly paid salary or wages plus $20,000 PSI deductions)
Other income	$2,000
Entity maintenance deductions	$5,000
Net PSI loss claimed by Sandi	$13,000
The company has net taxable income of	$0 ($2,000 other income less entity maintenance deductions allocated $2,000)

Sandi's Architecture Services Pty Ltd will need to:

- advise Sandi of her $13,000 net PSI loss (the company cannot use this loss)
- report this $13,000 net PSI loss as a reconciliation item, under **Non-deductible expenses** in the company tax return
- indicate the company's income includes an individual's PSI
- include Sandy's PSI amount of $40,000
- include the total amount of $53,000 deductions for PSI – the amount of $53,000 is calculated from the PSI deductions amount of $50,000 plus $3,000 of the entity maintenance deductions.

In her individual tax return, Sandi would declare:

- $13,000 net PSI loss and offset this against other income
- $30,000 salary or wages.

Example: attributing PSI where 2 individuals generate separate PSI

Jo and Jim are engineers who work through their company – Jo and Jim's Engineering Services Pty Ltd. Jo and Jim complete 2 separate contracts on behalf of Joe and Jim's Engineering Services, generating $100,000. Specifically:

- Jo's contract with Mega Mine Ltd generates $60,000
- Jim's contract with Mine Field Pty Ltd generates $40,000.

Both of these contracts are PSI, and Jo and Jim's Engineering Services has worked out that the PSI rules apply to both individuals.

Jo and Jim's Engineering Services Pty Ltd:

- promptly paid wages of $30,000 to Joe
- incurred $9,000 in allowable deductions in respect of Jo's PSI and $11,000 in respect of Jim's PSI
- did not incur any entity maintenance deductions.

Thus the attributed amount is worked out as follows:

Attributed amount calculation for Jo	**Attributed amount calculation for Jim**
$60,000 PSI	$40,000 PSI
−$9,000 deductions	−$11,000 deductions
−$30,000 salary or wages promptly paid to Joe	
$21,000 net PSI for Jo	**$29,000 net PSI for Jim**

Jo and Jim's Engineering Services Pty Ltd will need to:

- attribute $21,000 to Joe
- attribute $29,000 to Jim

- report this $50,000 as a reconciliation item, under **Other income not included in assessable income** in the company tax return.

Reporting the $50,000 as a reconciliation item does not mean the company pays tax on this income. It is simply a reporting method that shows income has been allocated to Jo and Jim. The company's taxable income is reduced accordingly.

Jo would declare the $21,000 attributed income and $30,000 salary or wages on his individual tax return and pay the relevant amount of tax on this income.

Jim would declare the $29,000 attributed income on his individual tax return and pay the relevant amount of tax on this income.

Completing reconciliation labels

Showing attributed income

Any PSI amounts you are required to attribute to individuals who generated the PSI is not your business's assessable income. On the tax return, the business's assessable income must be reduced by the total PSI attributed.

If you have worked out there is net PSI, you need to show this amount on your business tax return.

Company tax return

Once you have completed item **14 Personal services income**:

- subtract the amount at label **B** from label **A**
- include the net amount at item **7** label **Q**.

Partnership or trust tax return

Once you have completed item **30 Personal services income**:

- subtract the amount at label **B** from label **A**
- include the net amount at item **5** label **A**.

Make sure you include **L** in the box to the right of label **A** to reduce the assessable income of the partnership or trust.

Showing non-deductible expenses

Show any expenses that are not allowable deductions because of the PSI rules at either:

- item **7** label **W** on the company tax return
- item **5** label **B** on the partnership or trust tax return.

This includes the net PSI loss that each individual is entitled to claim as a deduction. The total amount of deductions the business can claim must be reduced by the total deductions that each individual can claim under the PSI rules.

Showing net PSI losses

When there is a net PSI loss, the individual can claim this loss as a deduction in their individual tax return.

Company tax return

Once you have completed item **14 Personal services income**:

- subtract the amount at label **B** from label **A**
- include the loss amount with all other non-deductible expenses at item **7** label **W**.

Partnership or trust tax return

Once you have completed item **30 Personal services income**:

- include the loss amount with all other non-deductible expenses at item **5** label **B**.

Your business cannot use a net PSI loss against any other business income or carry forward the loss. This net PSI loss must be transferred to the individual and deducted at item **D15 Other deductions** in their individual tax return.

PAYG when receiving PSI

If you or your business receives personal services income (PSI), you may have additional PAYG withholding obligations.

Last updated 17 March 2026

PSI obligations

Under the Pay as you go (PAYG) withholding rules, you have an obligation to collect tax from payments you make to employees and some businesses so they can meet their end-of-year tax liabilities.

If your business receives PSI and the PSI rules apply, that income will need to be declared by any individual who performed the services in their individual tax return.

You will have additional PAYG withholding obligations if the PSI your business received was not promptly paid as salary or wages to each individual who performed the service. Promptly paid means paying an amount by the 14th day after the relevant PAYG payment period during which the PSI was received by your business.

If your business has a net PSI loss for an income year, there are no additional PAYG withholding obligations, as there is no income to attribute.

If you're registered for PAYG instalments, any PSI attributed may affect your instalment income.

If you're unsure of your circumstances, you can seek further advice from us or a registered tax professional.

Understanding your additional obligations

Any additional PAYG withholding obligations will depend on the circumstances of your business.

Companies and trusts

For companies and trusts there are:

- normal PAYG withholding obligations for salary or wages promptly paid to each individual who produced the PSI
- additional PAYG withholding obligations for amounts attributed to each individual who produced PSI which was not promptly paid as salary or wages.

Partnerships

For partnerships:

- there are no normal PAYG withholding obligations for amounts paid to partners, because partnerships can't pay salary or wages to partners.
- there are additional PAYG withholding obligations for amounts attributed to a partner who produced PSI.

Your business can't enter into a PAYG withholding voluntary agreement if there are additional obligations.

Note: These additional PAYG withholding obligations will continue until your circumstances change and the PSI rules no longer apply.

For example, if you worked out last income year that the PSI rules applied, your business would have additional PAYG withholding obligations in the current financial year unless:

- all PSI is promptly paid out as salary or wages and appropriate PAYG amounts are withheld from the payments
- you worked out that the PSI rules don't apply to that income
- you received a PSB determination from us stating the PSI rules don't apply to that income.

For a new business, or one that has not received PSI previously, the additional obligations occur when your business attributes the PSI in the current income year.

Work out any additional PAYG withholding amounts

Your business needs to work out any additional PAYG withholding amounts for each business activity statement (BAS) for the attributed income only.

It can sometimes be difficult for businesses to accurately work out the attributed income amount each time their BAS is due, so we allow 2 simplified methods to help you.

If you intend to pay the whole of an individual's net PSI as salary and wages, these 2 methods can also be used to work out a reasonable salary amount for PAYG withholding purposes.

The 2 methods of calculating attributed income for withholding purposes are:

1. 70% of the gross PSI received in the PAYG payment period
2. a percentage of the net PSI from the previous income year

If you would prefer to work out the actual amount of PSI and additional PAYG withholding amounts for the BAS period, your business can still use this method. This method is known as the legislative method.

The legislative method allows you to more closely match your PAYG withholding obligations with your current PSI and expenses. Penalties may apply where you incorrectly calculate your PAYG withholding obligations and you end up not withholding enough tax. So it's important to take care when calculating.

If you correctly use either of the 2 methods, you will not be penalised if, at the end of the income year, you work out that you withheld less tax than you should have.

Example: working out PAYGW obligations

Claire is a computer programmer who operates through her company, Claire's Computer Programming Services Pty Ltd. In the first quarter (1 July to 30 September), Claire (on behalf of the company) completed 3 contracts which generated $100,000 PSI (GST exclusive). The company didn't earn any other income.

The company has worked out the PSI rules apply to the PSI and the company is registered for PAYG withholding.

For the $100,000 PSI, Claire's Computer Programming Services Pty Ltd has:

- promptly paid $30,000 to Claire as salary or wages

- incurred $10,000 in allowable deductions (other than entity maintenance deductions)
- attributed $60,000 ($100,000 − $30,000 − $10,000) to Claire, as she was the individual who produced the PSI.

Claire's Computer Programming Services Pty Ltd would have:

- additional PAYG withholding obligations for the $60,000 attributed to Claire
- normal PAYG withholding obligations for the $30,000 salary or wages promptly paid to Claire
- to give Clare PAYG payment summaries for the salary or wages and for the attributed PSI at the end of the income year.

For the additional PAYG obligations, Claire's Computer Programming Services Pty Ltd must:

- work out the amount of PAYG withholding for the PSI attributed to Claire
- report and pay the additional PAYG withholding amounts through the company's BAS for the first quarter
- give Claire an annual PAYG payment summary at the end of the income year
- send us an annual report showing additional PAYG withholding at the end of the income year.

Method 1: 70% of gross PSI received

The simplest method is to report and pay PAYG withholding on 70% of PSI (excluding GST) received by your business for the PAYG payment period.

Example: 70% of PSI received method

Kieran and Jackie are directors of Smith Pty Ltd, which reports GST and PAYG quarterly. Smith Pty Ltd provides Kieran's services as a computer consultant to a bank.

For the period 1 July to 30 September 2025, Smith Pty Ltd received income of $16,000 (excluding GST) as payment for Kieran's services – this is Kieran's PSI. Smith Pty Ltd has paid Kieran $9,000 as salary for the services he performed for the bank. Smith Pty Ltd withheld PAYG of $871 from his salary.

Under method 1, the amount subject to PAYG withholding for the period is

70% of $16,000 = $11,200.

PAYG withholding applied to the $9,000 promptly paid as salary. Additional PAYG withholding applies to the attributed income amount

($11,200 − $9,000 = $2,200).

Kieran has provided a TFN declaration and has claimed the tax-free threshold. Using the tax withheld calculator (quarterly), the amount of PAYG withholding payable is $1,287. This is made up of the:

- $871 of tax withheld from the salary paid to Kieran, plus
- $416 of additional PAYG withholding applicable to Kieran's PSI.

Method 2: Percentage from previous income year

Under this method, you report and pay PAYG withholding based on the following formula:

$$\text{net PSI percentage from previous income year} \times \text{gross PSI (excluding GST) received for the period}$$

The net PSI percentage equals:

$$\frac{\text{individual's gross PSI (excluding GST) for previous income year minus deductions that reduced gross PSI for previous income year}}{\text{business's gross PSI (excluding GST) for previous income year}} \times \frac{100}{1}$$

Example: percentage from previous income year method

Kieran and Jackie are directors of Smith Pty Ltd, which reports GST and PAYG quarterly. Smith Pty Ltd provides Kieran's services as a computer consultant to a bank.

For the period 1 July to 30 September 2025, Smith Pty Ltd received income of $16,000 (excluding GST) as payment for Kieran's services – this is Kieran's PSI.

Smith Pty Ltd has paid Kieran $9,000 as salary for the work he did for the bank. Smith Pty Ltd withheld PAYG of $871 from his salary.

Under method 2, Smith Pty Ltd must first work out the percentage of the previous year's net PSI.

For the previous income year Smith Pty Ltd:

- received total payments of $100,000 (GST exclusive) for Kieran's services
- received other income of $2,000
- incurred deductions (other than promptly paid salary or wages and entity maintenance deductions) of $30,000 to generate the income for Kieran's services, and
- incurred entity maintenance deductions of $5,000.

To calculate the net personal services income percentage:

1. Work out, for the income year, the amount of any deductions (other than entity maintenance deductions or deductions for amounts of salary or wages paid to Kieran) to which Smith Pty Ltd is entitled that are deductions relating to Kieran's personal services income.
2. Work out, for the income year, the amount of any entity maintenance deductions to which Smith Pty Ltd is entitled.
3. Work out any other income that Smith Pty Ltd received that was not personal services income of Kieran (or of anyone else, if applicable).

4. Deduct the entity maintenance deductions from other income received by Smith Pty Ltd first (which is $2,000 − $5,000). This leaves an amount of $3000 in entity maintenance deductions. So, total deductions that are deducted from Kieran's gross PSI are $30,000 + $3,000 = $33,000.

The net personal services income percentage for the previous income year is:

([$100,000 − $33,000] / $100,000) × (100/1) = 67%

So, the amount of Kieran's PSI subject to PAYG withholding for the period 1 July to 30 September 2025 is 67% of $16,000 = $10,720.

PAYG withholding applied to the $9,000 promptly paid as salary and additional PAYG withholding applies to the attributed income amount ($10,720 − $9,000 = $1,720).

Kieran has provided a TFN declaration and has claimed the tax-free threshold. Using the tax withheld calculator (quarterly), the amount of PAYG withholding payable is $1,196. This is made up of the:

- $871 of tax withheld from the salary paid to Kieran, plus
- $327 of additional PAYG withholding applicable to Kieran's PSI.

Legislative method

Under the legislative method, you can work out the attributed income amount for each PAYG payment period as follows:

- PSI (less GST) received by the business
- **less** wages or salary paid to the individual within 14 days of the end of each PAYG period
- **less** deductions (excluding entity maintenance deductions) you are entitled to claim in relation to the PSI.

Before entity maintenance deductions can reduce the amount, you must first offset them against any income of the business that is not PSI.

For the final PAYG payment period in an income year, you can further reduce this amount by the amount (if any) that entity maintenance deductions exceed other income for the year.

Example: legislative method

Kieran and Jackie are directors of Smith Pty Ltd, which reports GST and PAYG quarterly. Smith Pty Ltd provides Kieran's services as a computer consultant to a bank.

For the period 1 July to 30 September 2025, Smith Pty Ltd received income of $16,000 (excluding GST) as payment for Kieran's services – this is Kieran's PSI.

Smith Pty Ltd has paid Kieran $9,000 as salary for the work he did for the bank. Smith Pty Ltd withheld PAYG $871 from his salary.

PSI paid

PSI Smith Pty Ltd received	**16,000**
less salary or wages paid to Kieran	9,000
less deductions excluding entity maintenance deductions	7,000 4,000
Attributed income	**3,000**

Add the PSI attributed to Kieran to the salary Smith Pty Ltd paid him ($9,000 + $3,000 = $12,000). Applying the PAYG withholding tax tables (quarterly), the amount of tax Smith Pty Ltd must withhold from $12,000 is $1,534.

The amount withheld from Kieran's salary was $871.

The attributed PSI withholding amount is:

$1,534 − $871 = $663.

Smith Pty Ltd must report and pay an amount of $1,534 to us in its BAS. This amount is made up of:

- tax withheld from the salary paid to Kieran of $871
- the PAYG withholding on the attributed income of $663.

Because Smith Pty Ltd received income other than PSI and incurred entity maintenance deductions, it will need to consider whether it has any entity maintenance deductions not applied during the year that can be deducted in the last PAYG period of the year.

Report and pay PAYG withholding

Once you have registered your business for PAYG withholding we will send you a BAS showing when the withholding payment is due. You need to:

- pay withheld amounts to us
- report the amounts on your BAS, and
- lodge an annual report.

You should be aware of the following:

- Completing your business tax return
- Payment summaries
- Salary or wages in the following income year
- Payments to associates for non-principal work

Completing your business tax return

Your business cannot claim a deduction in its income tax return for the amount of tax it paid as additional PAYG withholding. The amount of tax your business withholds under this obligation is credited to the tax return of each individual who produced the PSI.

Payment summaries

Your business is required to give a payment summary to each individual the income was attributed to by 14 July following the end of the income year. Each individual receives credits in their individual tax return for the amounts that your business withheld.

You will need to include any:

- salary or wages you promptly paid to individuals and amounts you withheld from those payments in the form PAYG payment summary – individual non business
- income you attributed to each individual who produced the PSI and amounts you withheld from that income in the form PAYG payment summary – business and personal services income.

Salary or wages in the following income year

If your business makes payments of salary or wages between 1 and 14 July (after the end of the income year) and is affected by the PSI rules then, for the purpose of the PSI rules, the payments are treated as having been received on 30 June of the previous income year.

These payments must be included in your:

- business's BAS covering the month of July
- payment summary for the previous income year
- business's annual PAYG report for the previous year.

Payments to associates for non-principal work

Your business can't claim a deduction for salary or wages paid to an associate employee for performing non-principal work. The salary or wages are not included in the associate's assessable income. Instead, these amounts are included in the attributed income of the individual who produced the PSI.

However, you can include amounts withheld from the associate's salary in the PSI payment summary of the individual generating the PSI as additional PAYG withholding amounts if:

- your business withheld amounts from salary or wages paid to an associate for non-principal work, and
- you have not yet issued the payment summaries for the principal worker and the associate.

The associate must not receive a payment summary for salary or wages paid for non-principal work out of the attributed PSI.

If you have already issued payment summaries to the principal worker and the associate, then either:

- your business can issue an amended payment summary in a letter to each of the principal worker and associate, with a copy for them to send to us when lodging their tax returns, or
- the associate can lodge their income tax return showing no income from your business under salary or wages, but claim a credit for the amount of tax withheld – they must include additional information with their tax return explaining their circumstances.

You may also need to:

- work out if you have to pay super
- report some payments using Single Touch Payroll – refer to Payments you must report.

Partnerships and PAYG instalments

Under the PAYG instalment system, your instalment income may be different if you receive PSI and operate as a partnership. A partnership won't be liable to pay income tax and so is not required to pay PAYG instalments.

If your business is a partnership, you can work out your instalment amount (as an individual partner) for each period by using the 'instalment rate' option. Your share of the instalment income is based on the partnership's instalment income for the period.

If PSI is attributed to an individual, the attributed amount is not included in the assessable instalment income of the partnership. In some circumstances, PSI may not be attributed to the individual who earned it, for example, where allowable deductions have reduced the attribution amount to nil.

Any amounts of PSI that are not attributed to an individual and remain as the partnership's income are included when working out the instalment income. If this occurs, you should consider varying your instalment rate.

Any attributed income that has additional PAYG withholding obligations is not instalment income.

Correcting mistakes

If you realise you have made a mistake or forgotten to withhold, you can request an amendment.

Where you have already lodged some of your BAS and have not been withholding the correct amounts, you need to correct this mistake by lodging a revised BAS. You can't correct the withholding understatement on a future BAS. You need to write to us if you did not withhold any PAYG from PSI received, but you should have.

You must use the legislative method to work out the amount to withhold when revising a BAS. You can't use the simplified methods for a PAYG payment period that has ended. However, you can use one of these methods for future PAYG payment periods.

If your business doesn't report and pay additional PAYG withholding amounts when required, penalties and the general interest charge (GIC) may apply. The penalty is equal to the additional amounts that should have been paid to us.

However, we have the discretion to remit the penalty amount. When deciding on remission of penalty, we consider many factors including any PAYG instalments paid. The amount of penalty remitted is considered on a case-by-case basis.

If you correctly use one of the simplified methods to calculate additional withholding, we will remit the penalty on any shortfall if, at the end of the income year, you work out that you withheld less tax than you should have as a result of using that method.

Example: incorrectly reporting PAYGW

Betty started her business as a management consultant in August and contracted for her personal services through her company, Betty Pty Ltd. As a small withholder, the company reports and pays PAYG withholding quarterly.

The company didn't realise it had additional PAYG withholding obligations until early December. It had already lodged its September BAS without reporting its additional PAYG withholding obligations.

The company must lodge a revised BAS for the September quarter to correct the withholding understatement. It can't correct the mistake in a later BAS.

QC 17515

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

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