Print whole section

Service entities

Detailed information about income and deductions for service entities.

FAQs on service entity arrangements

Information guide to tax agents and tax payers on service entity arrangements.

Your service entity arrangements

Check your business is claiming only deductible service fees and charges for your service entity arrangements.

QC 28433

Service entity arrangements

Information guide to tax agents and tax payers on service entity arrangements.

Last updated 24 April 2019

On this page

Status of the guide

Indicative rates

Operating and finance leases

> Typical service entity arrangements
>
> Medical practice arrangements

The following material attempts to clear up misconceptions associated with Your service entity arrangements (PDF 187.85KB). Ensure you refer to the latest online version of this material for guidance purposes as the material is subject to change from time to time and additional content may be provided.

The information set out below is for clarification purposes only and is not a substitute for the law or our authoritative interpretation of the law on service entity arrangements contained in taxation rulings IT 276 and TR 2006/2. However, if you follow this material and it contains incorrect or misleading statements that cause you to make a mistake, interest and penalty protection will be available.

Status of the guide

The guide gives practical assistance on the application of the law and our approach to risk management of the issue. Material on risk management, which includes our indicative rates, is not legally binding.

The correct application of the law is subject to individual circumstances, whereas the material in the guide on the application of the law is only general in nature, so cannot be made legally binding. It contains our commitment statement to provide interest and penalty protection to taxpayers who rely on the guide in circumstances where the guide may contain incorrect or misleading statements that cause a taxpayer to make a mistake which results in a tax shortfall.

Compliance activity

The guide explains how service entity arrangements can be conducted to minimise the risk of review or audit.

You will be at a lower risk of review or audit if you follow our guidance material, which includes being able to demonstrate that your ongoing service entity arrangement helps you to run your business and that the service fees have been correctly calculated.

Service entity arrangements will be at low risk of review or audit, specifically in relation to fees charged, if:

- they are within the rates in the guide

- the circumstances in which those rates can be used also apply.

If you operate outside the guide, you will be at higher risk of compliance interaction with us. If you have commercial circumstances which support an arrangement that is outside the scope of the guidance, engage with us for assurance that your proposed arrangement is low risk.

We will manage ongoing tax compliance for service entity arrangements in accordance with our general risk assessment approaches. The nature and extent of our focus on such arrangements will be guided by tax returns and other data matching. This will give an indication of the level of compliance risk associated with these arrangements.

Uncommercial arrangements will continue to be at high risk of review or audit, and such compliance action can include prior years.

The guide explains that, from 1 May 2007, if the indicative rates are used, and no greater than 30% of the combined net profits of the professional firm and service entity are earned by the service entity (or service entities), there is little risk of an audit being commenced because of the amount of the deduction claimed. Above the 30% profit level, we may ask you for a satisfactory explanation, whether or not your arrangement is above or below the indicative rates. Different rates apply to general medical practitioners - see Medical practice arrangements.

The risk of being audited will increase according to the degree of divergence above those profit levels or the indicative rates and where there are questions concerning adherence to the business model on which the rate has been determined.

There may be other reasons for a case to be selected for review or audit. These reasons include:

- concerns about whether the services were in fact provided (for example, potential sham or where the service entity does not appear to have either the personnel or property to provide the services)
- the service arrangements are not typical Phillips-type service entity arrangements (for example, multiple entities involved or novel structures)
- lack of supporting documentation

- private expenses claimed by the service entity
- possible application of the general anti-avoidance rules needing to be determined
- other compliance risks associated with the arrangement.

If a deduction claimed for service fees is adjusted following a review or audit, we will allow a deduction based on what we consider the comparable rate would be for a particular service. This would be based on:

- the individual facts and circumstances of the case
- the findings of the audit for the relevant income years
- the relevant market rates at that time
- consideration of the actual nature and extent of the services provided.

This comparable rate would be used by us if amendments to assessments are required to adjust claimed excessive expenses under a service arrangement back to commercially justifiable claims.

The 30% combined profits test

We may ask you for a satisfactory explanation where more than 30% of the combined net profits of the professional firm and service entity is earned by the service entity, whether or not your arrangement is above or below the indicative rates in the guide.

Profit for the purpose of this test will be accounting net profit pursuant to Australian accounting standards and generally accepted accounting principles, not taxable income, and will be calculated after any interest and payment of goodwill.

In situations where the professional firm is incorporated, we will look at the combined position of both the company and the professional (as the professional business) on the one side, and the service entity on the other side, when calculating the relevant profit split. This addresses the interaction of the net profit test and the application of IT 2503, and ensures that both operate as intended.

In determining the net profit of the service entity, costs that are not genuinely incurred by that entity in carrying on its business should be disregarded. For example, payments made by a service entity to its

associates or to associates of the taxpayer may be either excessive or inflated when compared with payments that would have been made to an independent party providing the same services. In such situations, the payments should be excluded from any calculations, at least to the extent of the excess.

A genuine loss making service entity will satisfy the 30% profit test and can rely on the indicative rates in the guide. However, the general circumstances of the arrangement can still be subject to review. In particular, a loss making service entity will generally not be charging excessive rates for its services, so we would generally only look at such entities where there are other compliance issues.

Comparable rates and indicative rates

The guide provides rates which are applicable to typical service entity arrangements. It provides both comparable market rates and indicative rates.

The comparable rates are generally lower than the indicative rates. The comparable rates reflect the Commissioner's current understanding of market rates for typical services. The indicative rates on the other hand, while above market rates, reflect the Commissioner's view that the potential compliance risk would generally not justify audit activity for service entity arrangements that rely upon rates up to that level.

Use of rates higher than the indicative rates can be acceptable in individual circumstances, but we may ask you to explain those circumstances.

If you are unable to support those higher rates with appropriate evidence, we may make an adjustment in relation to your arrangement. If amendments to assessments are required to adjust claimed excessive expenses under a service entity arrangement back to commercially justifiable claims, we will reduce the rate allowable to a comparable rate that is applicable in the circumstances, not the indicative rate.

This commercially realistic rate would be based on:

- the individual facts and circumstances of the case
- the findings of the audit for the relevant income years
- the relevant market rates at that time

- consideration of the actual nature and extent of the services provided.

Comparable rates

In the guide we have provided economic data, generally in the form of net mark-ups on direct and indirect costs (referred to as net mark-ups), for functions typically performed under service entity arrangements. As this data represents our current findings (commerciality of rates can change over time) on the commercial returns pertaining to these functions, you can use those net mark-up rates with little risk of being audited, provided your arrangements are operating as described in the guide.

Some common mark-up rates

Labour Hire (temporary)	5% net mark-up on direct and indirect operating costs
Labour Hire (permanent)	3.5% net mark-up on direct and indirect operating costs
Recruitment	5% net mark-up on direct and indirect operating costs
Expense Payments	5% net mark-up on direct and indirect costs of paying the expenses, but not the expense itself
Equipment Hire	Return on assets (ROA) of 7.5% of opening written down value (for accounting purposes) of assets owned and used in the hiring activity in addition to depreciation, direct and indirect hiring costs. Analysis of the accounts of independent equipment hire firms for comparable rate purposes has been undertaken on an EBIT basis. Accordingly, financing costs are excluded in any ROA calculation.
	Example 1: Equipment hire Opening written down value of equipment: $10,000

	Return on assets @ 7.5% $750 Depreciation rate(@10%) $1,000 Insurance expense $1,000 $2,000 Service Fee for Equip Hire: $2,750 For assets acquired and disposed of during the year, the charge can be calculated monthly, such that a return on assets could be obtained in respect of new asset additions, from the month immediately after the date of acquisition. Conversely, no return on assets could apply in the month immediately after an asset is disposed of and thereafter.
Rental	Commercial rates, plus finder fees where appropriate.

Indicative rates

Indicative rates are above market rates and can be used by taxpayers to position their service entity arrangement into a low risk of review or audit category. This does not mean that we are satisfied that the indicative rates are in fact commercial benchmark rates for typical services. They merely reflect the Commissioner's view that the potential compliance risk would generally not justify compliance activity for service entity arrangements that rely upon rates up to that level, providing the arrangement has the relevant connection to the income earning activities of the business and supporting documentation exists.

In applying the rates to expenses borne by the service entity, there should be due care given to the matter of apportionment. When a service entity provides a number of services, the direct and indirect costs involved in providing each service need to be properly identified and apportioned. This is to ensure that all these costs are counted, that no cost is counted twice and, in the case of gross mark-up methodologies, costs related to the service entity's own administration of the services are excluded, and that the applicable mark-up is calculated for each service type.

The indicative rates are:

Labour

Provision of labour, comprising temporary and permanent staff, may be marked up by 30% of the salary and other direct remuneration costs of the employees involved in the arrangement, subject to the service entity paying all costs relevant to its labour hire business from this mark-up. The costs to be absorbed include:

- own rent
- payroll tax
- recruitment
- training
- supervision
- personnel costs
- other indirect overhead costs.

When conducting a review we would look to ensure that such costs are being paid and absorbed by the service entity and that they are not being kept artificially low. We would expect that the costs to be absorbed would amount to approximately 18% of the salary and other direct remuneration costs of the staff on-hired. Where costs to be absorbed from the labour hire charge are less than 18% of salary and other direct remuneration costs, the gross mark-up of 30% may need to be reduced on a 1% for 1% basis. The guide contains two case studies which explain how this works.

Given some confusion on how the calculation operates, an abridged version of these case studies, as depicted by an article in the *Law Institute Journal* (Aug 2006), is provided below, accompanied by a brief narrative.

Example

Law Institute Journal Example 1

Operating statement of a labour hire service entity

Income – labour hire	$1950	Gross mark-up
Less – expenses	$1500	=($1950-$1500)/$1500

Wages		= $450/$1500 = 30%

On-costs of hired staff	$100	Operating costs totals
Salary & OC of non-hired staff	$150	= $100 + $150 + $110 = $360
Other costs – depr'n, rent	$110	So, $360/$1500 = 24%

Total costs $1860

EBIT $90

(Earnings before interest and tax)

Net mark-up on costs:

(EBIT/Total costs) = 4.84%

= $90/1860

In the above example, assuming the service fees are commercial and are correctly calculated, then the gross mark-ups of 30% of salary and benefits and operating costs of 20% (not less than 18%) absorbed are within the ATO indicative ceiling rates. The net mark-up on costs of 4.84% is also well below the ATO limit of 10%. This service entity is therefore at a low risk of being audited by the ATO as the fees paid under the service arrangement are not grossly excessive.

Example

Law Institute Journal Example 2

Income – labour hire	$1950	Gross mark-up
Less – expenses Wages	$1500	=($1950-$1500)/$1500 = $450/$1500 = 30%

On-costs of hired staff	$100	Operating costs totals
Salary & OC of non-hired staff	$0	= $100 + $45 = $145
Other costs – depr'n, rent	$45	So, $145/$1500 = 9.67%

Total costs $1645

EBIT $305

(Earnings before interest and tax)

Net mark-up on costs:

(EBIT/Total costs) = 18.54%

= $305/1645

In the second example, while the gross mark-up rate is still 30%, the operating costs met by the service entity out of the gross mark-up is only 9.67%, well below the ATO benchmark of not less than 18%. The net mark-up on costs of 18.54% is also above the ceiling rate of 10%. This service entity would be in the high-risk category of being reviewed or audited by the ATO.

Alternatively, the service entity can mark-up all the direct and indirect operating costs associated with the on-hiring by 10%. Adopting this method of calculating the appropriate labour hire charges under the service agreement relieves the professional firm and the service entity of the obligation to dissect certain costs. You should note that this alternative gives approximately the same return on total costs as the 30% gross mark-up with 18% costs method described above.

Recruitment

In providing recruitment services, the service entity can mark-up all the direct and indirect operating costs associated with its recruitment activities by 10%.

Expense payments

The service entity charge for the costs of paying the professional firm's expenses must be limited to the costs associated with the payment of the expenses, marked-up by 10%, not the cost of the expense itself. For example, in the case of labour applied in administering expense payments, this would be the actual costs of the labour activity marked-up by 10% as described above.

Equipment hire

Under our indicative rates, the hiring fee for equipment owned by the service entity on a hiring arrangement is expected to result in a gross mark-up not exceeding 10% on the cost to the service entity of the equipment with all relevant costs relating to the equipment being met by the service entity.

This assumes, on an earnings before interest and tax (EBIT) basis (which excludes financing costs), that almost all attributable expenses would be gross costs and we would not expect to see any significant level of other operating costs relating to equipment. Accordingly, we would expect the net mark-up and gross mark-up result from the hiring activity to be close together. If other operating costs are significant, we may have some concerns and the arrangement would not be within the type intended to be covered by the indicative rate.

For the purposes of the indicative rates, the **cost of the equipment** is defined as the purchase price of the equipment. Gross costs such as depreciation, repairs, maintenance, insurance and stamp duty are charged across at cost, with the service entity left to absorb other costs such as administrative staff time and office costs associated with the hiring activity. The following is an example of a hiring fee that would be at low risk of audit:

Example 2: Equipment hire (using indicative rate)

Original purchase cost of equipment: $400,000

10% Mark-up* $40,000

Depreciation rate (@17.5%) $70,000

Other gross costs $95,000

Gross costs $165,000

Operating costs $5,000

Total costs $170,000

Gross mark-up $40,000

Gross costs $165,000

Service Fee for Equip Hire: $205,000

Net income (before interest & tax) from hiring service $35,000

The gross mark-up on the purchase cost of the equipment would only be available for those years when the asset is being depreciated, (that is, the effective life of the equipment over which the purchase cost is written off). Using this method, it would be inconsistent to continue to apply a mark-up on purchase price after it has been fully depreciated.

An arrangement which does not exceed the comparable rate for equipment hire would remain at a low risk of audit even if it exceeded this indicative rate.

In either situation, the relevant mark-up or return on assets should have regard for whether the service entity is the owner of the equipment. Where the asset is not owned, which will be the case for operating leases, the indicative rates cannot be relied upon.

Rental

In providing property **rental** services, the service entity should be charging rent at market rates, plus finder fees where appropriate.

The following additional material explains how to apply the approach in the guide for 'rental arrangements' and in particular, what we have regard to when reviewing particular rental arrangements. The points are not exhaustive, as each case is determined on its particular facts and circumstances.

To the extent that any property rented by the service entity is used in the provision of a particular service such as labour hire or recruitment services, it is appropriate to allocate a proportion of the rental expense to the service entity's cost base for that activity. This would then be included in the net-cost mark-up cost base for that activity.

To the extent that the property rented by the service entity is provided to the professional firm, both the comparative and indicative rates state that the 'rent is at market rates (plus finder fees where

appropriate).' Determining the appropriate market rate will always depend on the facts and circumstances.

As with any service provided by the service entity, key considerations are the:

- 'value add' of the service entity in the particular transaction
- market price for the service or property provided.

In relation to rental arrangements, the starting point is likely to be the market rent expense negotiated between the third party supplier and the service entity. Since this is an independent third party transaction, it represents a market price for the supply of that rental property.

If the supply of the property to the professional firm is on different terms and conditions than those of the head lease, leading to a mark-up claim that is higher than the relevant market rate at the time, and you are audited, you may be asked to explain why the service fee is higher. In particular, we will examine the commerciality of the terms and conditions between the service entity and the professional firm. An example of this would be if a premium is charged for the lease between the partnership and the service entity being on a short term basis.

If the service entity secured a discount to the market price, a mark-up may be justified. This would need to be a real discount to the market price, rather than a discount to some other nominal amount. A further consideration would be if such discount could have also been obtained directly by the professional firm, or indeed if the discount was only available because the professional firm was seen as the real tenant.

Example 10 of the guide (Your service entity arrangements (PDF 187.85KB)) provides an example of a low risk rental arrangement. A key consideration in this example is the ability of the service entity to gain a volume discount that the professional firm may not have been able to, since it only needs half the space. The rent charged to the professional firm, although it may be higher than that paid by the service entity, is at market rates for office space of the same or similar volume. The plan for the service entity to take on more space than needed by the professional firm would be able to be seen from the service entity's plans and forecasts.

Debt collection services

The guide does not deal specifically with pricing for debt collection services as it is not regarded as a function typically provided under a conventional service entity arrangement. However, appropriate prices can be worked out using the methodologies described in the guide or any other appropriate methodology.

If there are bona fide external arrangements that price their fees on the basis of charging a percentage of fees collected and the service entity is providing the same level and type of service, then this pricing method may be appropriate. It is important to ensure that the services offered by the service entity are the same or similar to those offered by comparable third parties. In particular, we note that most state and territory jurisdictions require some kind of licensing in relation to debt collection activities. Any service entity using these third party arrangements as a comparable market price would need to ensure they comply with any relevant regulatory requirements.

In addition, independent service providers generally price their fees on the basis of charging a percentage of outstanding debts collected, which have not been paid by the due date. We would have some concerns if the percentage applied was based on the total fees invoiced to clients, rather than on overdue and impeded debts.

Operating and finance leases

Both the indicative and comparable rates include rates for equipment hire when "the service entity owns the equipment". The following information provides guidance on the treatment of leases for the purposes of the guide. In deciding upon a particular treatment, we would expect that it be consistently applied for the equipment over the term of the lease.

The issue of operating leases is relatively straight forward, and is covered by the examples in the guide, specifically case studies eight & nine. In 'operating lease in operating lease out' arrangements, the service entity does not own the equipment and is, at best, providing a facilitation service and the net mark-up on the costs of the staff providing this service is likely to provide a commercial profit for this service. Accordingly, the comparable and indicative rates for equipment hire cannot be relied upon. In these cases, the equipment hire service provided to the professional firm is primarily an expense payment service. Therefore, the entire lease payment would be passed on to the professional firm at cost (eg with no mark-up), with the

appropriate expense payment comparable or indicative rate applied to any direct and indirect operating costs associated with the expense payment activity.

In the case of finance leases, the legal form of the arrangement is that the lessee may acquire no legal title to the leased asset. However, for the purposes of the application of the comparable and indicative rates, our view is that, in substance, the lessee acquires the economic benefits of the use of the leased asset for the major part of its economic life. This accords with treatment of finance leases under Australian Accounting Standard AASB 117 / Australian Accounting Standard AASB 16 (as appropriate). Accordingly, we accept that the reference to ownership for the purposes of the guide includes assets acquired under finance leases.

Finance leases are akin to borrowing to finance the purchase of an asset. Analysis of the accounts of independent equipment hire firms shows that some assets are acquired through finance leases. For these comparable companies EBIT has been calculated to exclude interest costs on such assets.

Comparable rate for equipment hire

The comparable market rate in the guide is a return on assets (ROA) set at 7.5% on the opening written down value of the asset. Consistent with outright ownership, the ROA component of the service fee is based on the written down value of the asset which excludes the finance cost component of the finance lease.

In certain circumstances the application of the ROA comparable rate may lead to the service entity incurring an overall loss for the equipment hire activity. This may occur when the interest costs incurred by the service entity exceed the ROA profit from the activity, since the service entity must absorb interest costs from the ROA.

When the level of interest expenses in a service entity is high enough to place the entity in a loss for the equipment hire activity, a concessionary treatment can be applied.

This concessionary treatment views the service entity as a conduit, so that the service it is providing to the professional firm is primarily an expense payment. Therefore, the entire lease payment would be passed on to the professional firm at cost (that is, with no mark-up), with the appropriate expense payment comparable or indicative rate applied to the direct and indirect operating costs associated with the

expense payment activity. Using this approach it would also be necessary for the service entity to charge across, at cost, any costs applicable to the equipment such as depreciation, repairs or insurance.

Indicative rate for equipment hire

For the purposes of the indicative rate, the cost of the equipment is defined as the purchase price of the equipment. For finance leases, this definition comprises the capital component of the lease.

The related interest component of the lease can be treated as an operating cost to be absorbed by the service entity out of the 10% mark-up on the capital component. This is consistent with the position for the comparable rate calculation where financing costs are excluded.

In certain circumstances the application of the indicative rate may lead to the service entity incurring an overall loss for the equipment hire activity. This may occur when the interest costs incurred by the service entity exceed the net profit from the activity, since the service entity must absorb interest costs from the 10% mark-up rate. When the level of interest expenses in a service entity is high enough to place the entity in a loss for the equipment hire activity, the same concessionary treatment described above for comparable rate can be applied.

Typical service entity arrangements

The guide provides comparable and indicative rates which are applicable to typical service entity arrangements.

Features of typical service entity arrangements are explained in the guide and are typically entered into by professional service providers such as lawyers and accountants, medical practitioners and pharmacists.

There are service entity arrangements that differ significantly from the conventional business model, such as some medical practice arrangements which charge for services on a percentage of gross practice fees basis, rather than using a mark-up on costs approach. The guide at pages 24 -25 allows for a separate set of rates to be used for general medical practitioners who operate under this business model.

Other service entity arrangements that have been observed include multiple entities or novel structures.

As indicated in the guide, we will continue to respond to any concerns we see with these other types of service entity arrangements as appropriate.

Medical practice arrangements

Application of the 40% and 45% rates to general medical practitioners

The guide, at pages 24 -25, allows general medical practitioners (GPs) to adopt the 'percentage of gross practice fees' business model for pricing their service entity arrangements if they accord with the description provided therein. Broadly, their service entity arrangements should be comparable to those types of arm's length arrangements in the medical profession where a complete suite of services is provided by the service entity to the medical practice. Case studies 15 & 16 in the guide are designed to illustrate this point. The position in the guide, which allows for benchmark rates of 40% & 45% of gross practice fees to be used by GPs, was reached after consultation with the medical profession and following independent verification by us.

It was acknowledged in consultation that it is harder to use the benchmarking approach for specialist medical practitioners, as their services are subject to sharper differentiation than GP services and there is considerable variation in practice costs. There is, generally, also an absence of public company data in relation to the provision of specialist medical services, unlike the situation for provision of general medical services which can be benchmarked using data from commercial service providers.

Example 2:

A tax agent has a client with a dental service entity. One of the dentists has an interest in the service entity; the other does not have any interest in it. The non-related party pays over 40% of his gross income to the service entity. In this instance, the related dentist can use this as a comparable market price, based on confirmation of independence, and (as always) confirmation

that comparable services are being provided at the same price (and satisfaction that there is no distribution back of the profits in the service entity to the unrelated dentist).

The ATO must be satisfied that the arrangements are the same or similar, which necessitates looking at all the relevant facts in each situation, including the nature of the services being provided and relevant functionality, costs incurred, basis for mark-ups applied, etc.

Medical specialists

Generally, medical specialists will not be able to adopt the 40% and 45% rates. If medical specialists have appropriate and comparable independent (that is, third party) market evidence, they may be able to use that under the 'comparable market prices' or 'comparable profits' approaches. This is explained in the guide to argue the case for use of the percentage of gross practice fees model and an appropriate benchmark rate. The need for such evidence and for their arrangements to demonstrate that the same or very similar level of service is being provided at the same price or rate as the independent service provider is paramount. They need to carefully consider the reliability of the independent data and, where necessary, make adjustments to reflect any material differences between the two factual situations so that they are matching like with like.

Anecdotal and unsubstantiated evidence, such as so-called 'industry norms', are not enough in terms of providing comparable data, nor is it appropriate to rely upon the arrangements conducted by GPs because that is not comparing like with like. The comparable market prices approach in the guide relies on enough information being available for us to make a judgment about the comparability of the transaction being priced. This involves the taxpayer being able to produce an appropriate and independent comparable arrangement in respect of the relevant services being provided on an arm's length basis to a similar medical specialist.

Rates for general practitioners operating in rural areas

Acceptance of a higher rate for rural general practitioners (GPs) followed representations from the medical profession and recognises the higher proportionate costs for these practitioners when compared to urban practitioners. The higher rate of up to 45% can be relied upon

by rural GPs if their medical practice arrangement is in a rural area and is comparable with the percentage of gross practice fees model described in the guide.

What constitutes a rural GP has not been specifically defined. Accordingly, we have relied upon general acceptance and usage of the term 'rural' within the Australian medical context.

While a number of geographic classifications have been developed over the years, embodying concepts of remoteness, it would appear from discussions with the medical profession that the Rural, Remote and Metropolitan Areas classification (RRMA) is the most readily understood framework for categorisation that would be largely accepted by GPs.

Accordingly, we are prepared to adopt the RRMA classification as the most appropriate means to identify what is rural for the purposes of determining whether the higher rate of up to 45% can be used by certain GPs.

Using rates higher than 40 or 45%

Higher rates can be accepted and may be appropriate in some circumstances. However, you will be expected to explain the reasons for the higher rate.

The risk of being subject to a review or audit will increase according to the degree of divergence above those rates or divergence from the business model on which the rates have been determined.

Reliance on the rates of 40% and 45% assumes that the business model (described on page 25) in the guide is adhered to. This business model is one, whereby the service entity runs the business of the medical practice and provides GPs with a complete suite of services in return for a set percentage of their gross practice fees.. In situations that are not in accordance with the described business model, such as where the service entity only provides a limited service, or where a GP owns the business premises, the relevant rates cannot be relied upon. Instead, GPs would need to rely upon either the comparable or indicative rates in the guide in relation to the specific services provided.

Practice Incentive Payments and Service Incentive Payments

The treatment appropriate for supplementary payments additional to direct patient consultation fees (such as practice incentive payments or service incentive payments) requires an understanding of the purpose of the payment and its relationship with the underlying costs of the practice. Generally, we would not accept the inclusion of these amounts in the general practitioner's professional fees on which the 'percentage of gross practice fees' method operates.

Using listed company data as a comparison

There are some listed companies which provide practice management services and some which provide these services **as well as** medical or dental services directly to the public. For the financial results of these firms to be relied upon for the 'comparable profits approach', you need to ensure that the profits are from providing the same services as the service entity in question. For example, if the financial results of the listed firm include substantial income from activities other than providing administrative services to medical/dental practitioners, then it may not be appropriate to rely on those results.

Our acceptance of the use of listed company data without regard to the genuine comparability of profits is not guaranteed.

QC 20302

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.

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