



This is the time of year when tax is on the minds of many of us for one reason or another. It might be that an almost overdue tax return from last year is still not done or it's time to start preparing for the current year's tax return.

Work-related deductions

Each year the Australian Tax Office (ATO) singles out a number of industries or occupations for closer scrutiny. This was the case in 2006 for health care professionals. But, before you relax and congratulate yourself on not having been audited, you must remember that the ATO has until 2010 to review your 2006 income tax return.

As is the case each year for all taxpayers, particular care must be taken when claiming expenses such as motor vehicles, business use of mobile phones, home offices, travel and education. To substantiate such claims, dentists must ensure they hold the relevant receipts, log books and any other applicable documentation.

Work-related deductions are considered by the ATO to be one area with a high potential risk of error and overstatement. The ATO does not believe there is the same risk with revenue as it is far easier to crosscheck revenue data.

The Tax Office continues to improve its already extensive data-matching program in relation to income. From the information it receives directly from banks, financial institutions and employers, the ATO already knows what should be in a taxpayer's return before it's lodged! Therefore, it is prudent to be accurate when declaring interest and dividend income and not rely on a best guess or 'same as last year' approach. Errors in this area will be picked up and may delay the processing of your tax return or lead to further ATO review.

Rental properties

The ATO is also continuing to focus heavily on rental properties, so dentists whose tax returns show rental income or loss from investment properties, holiday homes, hobby farms etc, need to take care to disclose all

Tax facts every dentist should know

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income from the property and ensure that deductions claimed are not private or of a capital nature.

In 2006, the ATO went to great lengths to contact taxpayers who own rental properties (especially where they are negatively geared) and 'advise' them about the deductibility of interest and prepaid interest.

Service agreements

Employers are approaching more and more salaried dentists to enter into 'service agreements'. Basically, these service agreements turn an employee dentist into a contractor. Contractors normally need to have an ABN and register for GST. All dentists who are considering entering such an agreement need to seek professional advice on the issue as it substantially changes their employment relationship. In the opinion of the writer most of the claimed tax benefits of the arrangement are illusory.

Superannuation

Whether you are young or old, changes to superannuation laws, most of which come into effect from 1 July this year, are beneficial to everyone. Therefore, you should seek professional advice to determine whether you need to take any action before 1 July 2007 to secure a benefit that may otherwise be lost forever.

Practice owners

Whether you operate your practice as a sole trader, company or trust, most of the issues outlined above for salaried dentists also apply to you.

Prior to year-end you should also consult your accountant or tax agent about a range of issues to ensure you maximise your deductions, comply with ATO laws and Rulings and have the opportunity to fix any problems before 30 June.

The hottest topic at the moment, apart from superannuation, is still the issue of service trusts. When the ATO issued Ruling TR2006/2 in April last year, many dentists and their advisers believed service trusts would no longer be effective.

The ATO allowed a moratorium of 12 months to 30 April 2007 for taxpayers to review their service agreements and ensure they could operate within the terms of the ATO Ruling and guidelines.

I believe the effect of the Ruling on service trusts has been to increase the number of dentists operating service trusts. This is because they now have a level of comfort and assurance that there is little risk that the ATO will audit their service arrangement if it is operated in accordance with the Ruling. With the end of the financial year just around the corner, it is prudent for practice owners to seek answers to the following questions, if they apply:

- Am I in the right structure (company/trust) and what are the benefits?
- Should I spend money before 30 June and how advantageous is it to purchase new equipment, motor vehicles or pay for conferences?
- What expenses should I pre-pay?
- What is the best way to finance my next equipment/motor vehicle purchase (including hire purchase/chattel mortgage/lease)?
- What changes to superannuation apply to me, and my practice, and when should I take action to benefit from the new changes?
- Are my taxation affairs up to date and in good order with regard to fringe benefits tax, directors debit loans, service agreements with my 'contractor' dentists, employment issues (Workcover, payroll tax, PAYG, superannuation), Simplified Tax System (STS) and personal services income?

MW Partners advises a broad range of health professionals and are experts when it comes to tax issues faced by dentists. If you wish to discuss your financial or tax affairs and are a member of the ADAVB, your first consultation is free of charge. Please call **03 9913 0030** to make an appointment.



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