

RECOGNITION AND REWARD

Employers need to actively seek suggestions from their employees through cultural and engagement surveys as well as individual and group discussions. Identify and agree upon your employer-employee value proposition, for example, 'what's in it for you? what's in it for us?'. Investing time to understand generational needs, and your employees' value proposition, will result in employee engagement of the entire workforce, and successful long-term return on investment. Although individuals from each generation can be flexible and adapt, distinct generational characteristics can have a significant impact on business management.

To maximise workplace effectiveness and efficiency, employers must strive to support and nurture a multigenerational workplace

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that fosters worker productivity, teamwork and a sense of valuing all employees. It is important for employers to understand and implement practices that complement employees' generational preferences, differences and similarities. The entrance of Generation Z into the workforce will provide new perspectives, opportunities and challenges. It is pivotal that employers capitalise upon the unique characteristics of this generation to aid productivity and morale in the workplace.

**For more information or assistance, contact the ADA
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Service trusts: How do they really work?

Service trusts are used in many professional businesses. The trust (which in some cases may be a company) is usually a discretionary/family trust that provides administrative services, employment of staff, provision of premises/plant and equipment and other clerical services. This frees up the dentist to concentrate on generating dental income from their patient base.

The use of service trusts is accepted by the Australian Tax Office (ATO) provided the arrangement is in accordance with ATO Rulings and Guidelines, which have been in force for more than 10 years. Tax Ruling TR 2006/2 governs all service trust arrangements and predominantly says that where the service fees and charges are a real and genuine cost of the business, those fees are deductible in full. For most professional service businesses, the service fees and charges are calculated by way of a percentage markup on the expenses incurred by the service trust.

The percentage markup method restricts the amount of profit that the service trust can generate as typically most costs cannot be marked up by more than 10 per cent. This means if the costs of operating the practice were \$450,000 then the maximum service fee charged will be \$495,000, resulting in a profit for the service trust of \$45,000. Dental practices are entitled to use a different calculation method in accordance with the ATO guidance booklet, *Your service entity arrangements NAT 13086*, in which the ATO accepts the dental industry standard of up to 60 per cent of gross patient fees (after labs), i.e. the ATO accepts that 40 per cent after labs goes to the dentist and therefore 60 per cent is the maximum amount that can be applied to cover the expenses of running the practice. Extending on the previous example where a practice may generate \$1 million in fees and have operating costs of \$450,000, then the profit in the service trust would be \$1 million x 60 per cent = \$600,000 less \$450,000 = \$150,000. This is obviously substantially better than the \$45,000 in profit as it means the dental surgery can now distribute up to \$150,000 in profit to beneficiaries/family members associated with the service trust who are likely to

be on a lower tax rate than the practising dentist owner.

Why can't you achieve the same result by operating as a sole trader, company or trading trust? In cases where most of the fees are generated by the principal dentist, the ATO considers this income personal services income. Even where a corporate entity is used, it is not possible

to distribute or reallocate personal services income. This means all income and profits of the business are caught in the hands of the principal dentist and in these circumstances, the principal dentist is prohibited from paying a spouse or associated person wages for administration services. Find more information regarding personal services income in Income Tax Ruling IT 2639, which should be read in conjunction with IT 2503 (Incorporation of medical and other professional practices).

In simple terms: for the most effective use of a service trust, the principal dentist should receive all the fees in their own name and then reimburse the lab fees to the service trust as well as pay a 60 per cent service fee to their service trust. This means the principal dentist will earn no more than 40 per cent of gross fees (after labs), which is the same as if they were a contracting dentist to their own practice. The profit of the business is then available to be distributed to family members at a lower tax rate and possibly a corporate entity (at tax rate of 30 per cent or less).

MW Partners deals with both simple and complex tax matters for dentists. We specialise in advising dentists of the risks and benefits associated with conducting their business under various different tax structures. If you have difficulty understanding the implications of the above service trust operations or would like a confidential discussion on any tax issues that are concerning you, call Albert Gigl on (03) 8825 5400. As a member of the ADAVB, there is no charge for your first consultation.



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