



TAX ALERT – DENTAL SERVICE FEES

The ATO have recently released a fact sheet titled 'General dental practice arrangements' which supplements their 2006 booklet on service entities. The views expressed in this fact sheet are more generous than previous ATO views, so it is appropriate that service fees and service entity arrangements of dental practices are reviewed to ensure they continue to be on a commercial basis.

In 2005/2006, the ATO conducted an extensive review of service entities over many professions with a view to ensure that service entity arrangements were conducted on an arm's length basis and were not used for the purpose of splitting professional's income. Taxation Ruling TR 2006/2 was issued and provided the ATO's view of the law as it pertained to service entities.

At that time, the ATO also released a booklet titled 'Your service entity arrangements' which provided guidance as to what arrangements they considered to be low or high risk and provided a number of methods of calculating service fees that would be acceptable.

This latest fact sheet specific to dental practices indicates that a service fee of up to 60% of the dentist's gross fees from patients may be considered a commercial rate where the service entity provides everything to allow the dentist to perform his services to the patients. The 60% fee is higher than was indicated in the previous ATO booklet.

A fee of 60% may be appropriate where the service entity provides premises, equipment, all employees (dental hygienists, practice staff etc), billing and collection, maintenance of records and general administration etc. In this situation, the dentist is not involved in the administration of the practice and his / her only expenses are personal insurances (professional indemnity, income protection) and superannuation and personal professional expenses (subscriptions to professional organisations etc required to keep practicing).

The fact sheet also indicates that in situations where the dentist provides more than just the dental services to patients (eg is involved in practice administration, hires staff or maintains own equipment), then a 60% fee may not be justified and should be reduced.

We recommend that dental service entities review the services being provided and the level of fees being charged to ensure they continue to be on a commercial basis and to satisfy any possible future ATO scrutiny.

This tax alert contains general advice only and should not be relied upon. Please contact Hanrick Curran's tax partner, Jamie Towers, or Tim Taylor or Manny Diacaris who specialise in assisting professionals including dentists for advice specific to your circumstances.

6 January 2010