

## SMALL BUSINESS ENTITY SYSTEM

- Eligibility: Subdivision 328-C of ITAA97: Turnover threshold of \$2million per year
  - Aggregate annual turnover of \$2mil or less if following are satisfied
  - Aggregated turnover for the previous income year is less than \$2m
  - Aggregated turnover for the current year likely to be less than \$2m or;
  - Aggregated turnover for the current income year is less than \$2m
  - Business will have to include details of all entities connected with it; entities it controls
- Capital allowance rules for SBE system
  - Immediate write off for items costing less than \$20,000 as per s 328-180(2)
  - Pooling of other depreciable assets as per s 328-185
    1. General SBE pool (for items with effective life <25 years) = 30% and 15% in the first year of acquiring the asset
    2. Long Life SBE pool: items with effective life >25 years= 5% and 2.5% in the first year

## PERSONAL SERVICES INCOME

- **Definition: Ordinary or statutory income that is derived mainly as a reward for the personal efforts and skill of an individual: s 84-5(1)**
- Not PSI if income is from the use of assets (dividends, rent etc)
- Are they being awarded for a personal skill?

### **Examples:**

- (1) A taxpayer owns a semi-trailer and is the only person who drives it, paid for transporting items with this truck
    - a. Income of the truck is not PSI- income is produced mainly by using the truck and so is not a reward for the personal services of the taxpayer
  - (2) Taxpayer provides a computer programming service but she uses the client's equipment and software to do the work
    - a. Yes this income is PSI, is a reward of her personal efforts and skills
- Personal services entity or an individual is considered to be carrying on a **Personal Services Business** if:
    - It meets the results test or;

- It receives less than 80% of its PSI from one source and it is able to satisfy one of 3 PSB tests
- **Results Test:** an individual or personal services entity satisfies this test, if, in relation to at least 75% of the individuals or entity's PSI during the income year as per s 87-18(1)
  - the income is for producing a result (outcome paid on performance not hours worked)
  - the individual or entity is required to **supply the plant, equipment or tools** necessary to perform the work
  - the individual or entity is **liable for the cost of rectifying any defective work**
- **80% Threshold**
  - If results test is not passed then there is an 80% threshold to be applied
  - If 80% or more of an individual's PSI is from the same entity then the entity will require a Personal Services Business determination from the commissioner: s 87-15(3)
  - If less than 80% of the PSI is from any one source, entity can self assess against the remaining 3 PSI tests, and if it passes one of those tests, the income of the individual or PSE will not be subject to the PSI rules
- **Unrelated Clients test: s 87-20**
  - Will be satisfied in an income year if:
    - The individual or PSE gains or produces income during the income year from providing services to 2 or more non-associated entities and
    - The services are provided as a direct result of advertising or otherwise offering the services to the public at large or to a section of the public
- **Employment Test**
  - Satisfies the employment test in an income year if:
    - He or she engages 1 or more entities to perform work and
    - The market value of the principal work performed is at least 20% of the individual's or PSE's principal work for that year; s 87-25 (1)
    - An individual or PSE will also satisfy this test if it has an apprentice engaged for at least half of the income year: s 87-25(3)
- **Business Premises Test: s 87-30(1)**
  - Satisfied if the individual or PSE maintains and uses business premises at all times during the year, which are:
    - Owned or leased by the contractor
    - Mainly used (more than 50%) for PSI producing activities
    - Exclusively used by the entity or individual contractor; and
    - Are physically separate from the individuals or associates residence (must be detached and not have any internal access; cannot work at home)

