

What is Personal Services Income (PSI)?

PSI is income that is mainly a reward for, or the result of, your personal efforts or skills. In this context 'mainly' means more than 50%.

It does not include income that is mainly generated by supplying or selling goods, an income-producing asset, granting a right to use property, or a business structure.

Examples of PSI include:

- income earned by consultants from exercising personal expertise
- income of a professional practitioner in sole practice
- income payable under a contract that is wholly or principally for the labour or services of a person
- income derived by a professional sportsperson or entertainer from the exercise of professional skills.

You don't have to be an employee to earn personal services income but may, for instance, be a sole trader, or receive your income through a company, trust or partnership. If your personal services income is channeled through a company, partnership or trust, it is still your personal services income for income tax purposes.

If you receive PSI, there is a series of tests you must use to work out if the PSI rules apply to this income. These are the:

- **results test** – use this test first to work out if you've received the income after achieving a specific result or outcome.
- **unrelated clients test** – use this test to work out if you have received income from two or more clients who are not connected or related.
- **employment test** – use this test to work out if you employed or contracted others to help complete the work that generates your PSI.
- **business premises test** – use this test to work out if the location and usage of your business premises meet certain criteria.

Results test

You pass the results test in the income year if you can answer 'yes' to all three of the following questions for at least 75% of your PSI:

- Under your contract or arrangement, will you only receive payment when the work has been completed?
- Do you need to provide the equipment or tools necessary to do the work?
- Do you have to rectify defects in the work, or are you liable for the cost of rectifying defects?

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The 80% rule

For the 80% rule, you need to work out whether you receive 80% or more of your PSI form one client (and their associates) in an income year.

Unrelated clients test

You pass the unrelated clients test in an income year if you answer yes to **both** of the following questions:

- Do you receive PSI from two or more unrelated clients?
- Do you provide your services as a direct result of making offers or invitations (such as advertising) to the public?

Employment test

You pass the employment test in an income year if you answer 'yes' to one of the following questions:

- Do you get employees, partners (in a partnership) or other contractors to perform at least 20% (by market value) of the principal work?, or
- Do you have one or more apprentices for a least half of the income year?

Business premises test

You pass the business premises test in an income year if you answer 'yes' to all parts of the following question:

- Owned or leased by you
- Used for personal services work more than 50% of the time
- Used exclusively by you
- Physically separate from your residence and your associates' residences, and
- Physically separate from the business addresses of clients and their associates?

If you don't pass any of the tests – the PSI rules apply

If you have worked through the tests and you don't pass any of them, the PSI rules apply. This means you:

- won't be able to claim certain deductions against the PSI, including rent, mortgage interest, rates, land tax, certain payments to associates; and there are some restrictions on superannuation for associates.
- Will need to meet certain tax return reporting obligations.

Deductions you can claim against PSI

You can claim the following deductions against the PSI you received, if you incurred the expenses to generate this income:

- Advertising
- Registration and licensing fees
- Insuring against loss of income, earning capacity or liability for acts/omissions in the course of earning income
- Public liability and professional indemnity insurance
- Salary or wages for an arm's length employee
- Reasonable amounts paid to an associate for principal work
- Complying with workers' compensation law, including premiums
- Super contributions for the benefit of the individual or an arm's length employee
- Running expenses for a home office eg. heating

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Note: This information is of a general nature only and is not intended to be relied upon, nor to be a substitute for, specific professional advice. Also as changes in legislation may occur quickly we recommend that our formal advice be sought before acting in any of the above areas.

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