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Private health insurance rebate: FAQs

By now, most people would know that the private health insurance rebate is being income-tested – effectively meaning that if you have private health insurance, the rebate you are entitled to receive depends on your annual income, your age and the number of dependent children you have. The table on page 2 summarises the thresholds, which are indexed annually.

Income thresholds aside, many people remain confused on the finer aspects of the rebate. Below is a question-and-answer guide covering a range of questions – from who is eligible for the rebate to how to claim it.

1. Who is eligible for the private health insurance rebate?

To qualify, you must:

- be eligible for Medicare
- have an income for the Medicare levy surcharge purposes below the tier 3 threshold (refer to tables on page 2), and
- have appropriate health insurance that is considered a complying health insurance product (CHIP) with a health insurer that is registered with the Private Health Insurance Administration Council (PHIAC).

Even if you don't pay tax – for example, you're a pensioner or student – you are still eligible for the rebate which is available to anyone who pays for private health insurance.

2. What is the Medicare levy surcharge?

Individuals and families on income above the Medicare levy surcharge thresholds, who do not have an appropriate level of private patient hospital cover, may be required to pay the Medicare levy surcharge for any period during the year that they did not have this cover. Depending on your income for surcharge purposes, the rate can be up to 1.5% (in addition to the Medicare levy).

3. How do I claim the rebate?

There are three ways:

a. you can receive the rebate as a premium reduction through your private health insurer, which means you pay less upfront

b. you can claim the rebate in your tax return as a refundable tax offset (this option does not require you to nominate a tier), or

c. you can receive a direct payment from the government through your local Medicare office.

If you choose to claim the rebate as a premium reduction, you should nominate a tier based on your estimated income (see tables overleaf). You can

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About this newsletter

Welcome to MC & Co's client information newsletter, your monthly tax and super update keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us via the details below.

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Also in this issue:

Senior Australians & Pensioner Tax Offset explained 4
Timely tip for SMSFs: Audit your fund before annual return deadline...................... 5
Tax guide on the National Disability Insurance Scheme 7

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Private health insurance rebate: FAQs (cont)

nominate your tier by contacting your insurer or by filling out the Medicare rebate claim form.

The amount of the rebate is also dependent on your age. Older taxpayers are entitled to a higher rebate (see tables below).

4. How can I calculate or estimate my income tier?

The tiers are based on your income for Medicare levy surcharge purposes – consult this office to work out which tier you are in.

5. My income has changed - what do I do?

If your changed income results in a different rebate entitlement, you should contact your private health insurer and tell them which tier you expect to be in for the financial year. They will adjust your rebate so you can avoid a potential tax liability. If you don't nominate a tier and you currently receive the rebate as a premium reduction, you will continue to receive your current rebate but may face a tax liability at the end of the financial year.

6. What happens if I nominate an incorrect tier?

If you nominate a tier that results in a lower rebate than your income entitles you to, you will receive a tax offset through your tax return at the end of the financial year. Conversely, if you nominate a tier that results in a higher rebate than your income entitles you to, the Tax Office will claim back the excess rebate and you will incur a tax liability through your tax return at the end of the financial year. This means you could have a tax debt. Don't worry however, as there are no additional penalties for incorrectly estimating your income tier.

If you get an excess private health insurance reduction or rebate reduced amount on your notice of assessment, it is the amount of overpaid private health insurance you have received. This amount will be shown in the debit column of your notice of assessment.

If you are unsure of your income range or if you'd prefer to claim the rebate as a lump sum, you can choose to pay the full premium and claim your rebate entitlement through your tax return.

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Table 1: Private health insurance rebate income thresholds for 2012-13

	Income thresholds			
Singles	$84,000 or less	$84,001-$97,000	$97,001-$130,000	$130,001 or more
Families	$168,000 or less	$168,001-$194,000	$194,001-$260,000	$260,001 or more
	Private health insurance rebate entitlement			
	Base tier (no change)	Tier 1	Tier 2	Tier 3
Under 65 years old	30%	20%	10%	0%
65-69 years old	35%	25%	15%	0%
70 years old or over	40%	30%	20%	0%

Table 2: Private health insurance rebate income thresholds for 2013-14

	Income thresholds			
Singles	$88,000 or less	$88,001-$102,000	$102,001-$136,000	$136,001 or more
Families	$176,000 or less	$176,001-$204,000	$204,001-$272,000	$272,001 or more
	Private health insurance rebate entitlement			
	Base tier (no change)	Tier 1	Tier 2	Tier 3
Under 65 years old	30%	20%	10%	0%
65-69 years old	35%	25%	15%	0%
70 years old or over	40%	30%	20%	0%

Note: For both tables, single parents and couples (including de facto couples) are subject to family tiers. For families with children, the thresholds increase by $1,500 for each child after the first.

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Private health insurance rebate: FAQs (cont)

Your private insurer will give you a statement at the end of the financial year to help you complete your tax return.

7. Do I need to lodge a tax return to claim the rebate?

You will need to lodge a tax return if you think you are eligible to claim the private health insurance rebate and you have not claimed any or all of your rebate from your health insurer as a premium reduction.

8. Can I claim the rebate if I only have private health insurance general treatment cover?

Yes. You will receive a rebate unless you earn more than the tier 3 threshold (refer to tables).

9. I have children. Do I get any extra assistance?

If you have dependent children, the family thresholds apply (again, refer to tables above). If you have one dependent child, the threshold will not be affected. However, for families with multiple children, the threshold will increase by $1,500 for each child after the first. For instance, a tier 1 family with three children will have its income threshold increased by $3,000.

Family income includes the combined income of both adults. For single parents, only the adult's income counts towards the threshold. Income of dependent children is not included.

10. Are de facto couples and single parents considered a family?

Yes, single parents and couples – including de facto couples and those with one or more dependents that do not live permanently with them – are subject to the family tiers.

11. My spouse (or de facto) and I have separate policies. Do family or single thresholds apply?

The family thresholds apply regardless of whether the individual family members are on the same or different private health insurance policies. However, you cannot claim a private health insurance rebate on behalf of your spouse if you hold separate private health insurance policies.

12. I don't have private health insurance but my dependent child does. Can I still claim the rebate?

Yes. Provided you pay the dependent child's private health insurance, it does not matter if you are not personally covered by the policy. The size of the rebate will depend on your income. If you are a tier 3 family, you will not receive a rebate.

13. How is our family's age determined?

The rebate is based on the oldest person covered by a policy. For instance, if you are 62 – and your partner is 65 – you will receive a 35% rebate if you earn less than $176,000 (see 2013-14 table above).

14. I separated from my spouse during the year. What income should I use to calculate my rebate?

If you remain single with no dependents as of June 30 that year, your rebate entitlement is calculated only on your own income – that is, the single income thresholds apply. If you separated from your spouse during the year but substantially maintain a dependent child, you will be income-tested under the family income thresholds.

If you separated from your spouse during the year and paid for the full policy for the entire year, you cannot claim the full rebate without sharing because the policy covers both you and your ex-spouse. You can only claim a rebate for your share of the policy. Likewise, your spouse cannot claim for your policy if they are not on your policy.

15. I pre-paid my private health insurance for the 2012-13 year in 2011-12. Will I still be income-tested for my payments?

No. If the premiums for your 2012-13 policy were pre-paid, you cannot claim a rebate in your 2012-13 tax return. However, you still need to complete the private health insurance policy details section on your tax return using $0 values so the Tax Office can confirm you had an appropriate level of private patient hospital cover for the whole year. Otherwise, Medicare levy surcharge may be levied.

16. My employer pays my private health insurance. Who is entitled to the rebate?

Only the adult covered by the policy is entitled to claim the rebate. If your employer pays your health insurance, typically you will receive the rebate as a reduced premium. Your employer will pay the outstanding premium. If an incorrect rebate is claimed, the balance will be corrected through your tax return.

17. I am an Australian citizen living overseas. Can I claim the rebate for the private health insurance I have purchased overseas?

No. An overseas insurance policy, or an insurance policy which covers things that happen outside Australia, is not a complying CHIP.

Consult this office if you have any other queries about the private health insurance rebate. ■

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Senior Australians & Pensioner Tax Offset explained

After working (and paying taxes) for most of your life, it can be a good feeling to get to that stage of your life where it's time to get some pay-back from the taxman. Your golden years can be given an extra glow by claiming the Senior Australians and Pensioner Tax Offset (SAPTO), if you qualify.

What is a 'tax offset'?

Generally speaking, a tax offset can reduce your tax bill, but doesn't lessen "taxable income", just the tax owing on it. So a tax offset can reduce tax to zero in theory, but will never in itself result in a refund. And since receiving an offset can make you liable for less tax, you can earn more income before paying any tax (and the Medicare levy).

What is the SAPTO?

The SAPTO is an amalgamation of two previous offsets, the Senior Australian Tax Offset (SATO) and Pensioner Tax Offset (PTO). The previous offsets were last able to be claimed in the 2011-12 income year. The new SAPTO can be claimed from the 2012-13 income year onward.

Generally, due to the merging of the previous two offsets, taxpayers able to access the SAPTO concession, according to the Tax Office, are either of the following two types of taxpayers:

1. a taxpayer who during the income year:
   - received a government pension, allowance or benefit from Centrelink or Veterans Affairs
   - has reached pension age, and
   - is not in gaol (yes, the Tax Office actually stipulates this), OR
2. a taxpayer who during the income year:
   - became eligible for a government pension or benefit but did not receive one, and
   - is not in gaol.

This definition means veterans who were eligible for a pension but did not receive one (perhaps due to not meeting the income or asset requirements) and persons not meeting the residency requirements for an aged pension, but were eligible for that pension using an alternate test, could be able to access this offset.

TIP: The Low Income Tax Offset (LITO) of up to $445 (from 2012-13) may also apply in conjunction with SAPTO, depending on personal circumstances. Ask this office if you think this may apply.

The table below details the offset thresholds and maximum offset rates.

However it should be noted that calculating the SAPTO can be finicky and complex, especially where taxpayers are part of a couple where both partners are eligible. The difficulty lies in working out the amount of unused SAPTO transferred between the couple. The reason this may cause confusion is because this part of the calculation may be based on rates and thresholds from previous financial years.

There are SAPTO calculators on the Tax Office website. Also ask this office for guidance or for more information. ■

SAPTO 2013-14

	Rebate income		
Eligibility condition	**Threshold maximum tax offset applies**	**Above threshold no longer eligible**	**Maximum rebate amount**
You did not have a spouse and your rebate income was less than…	$32,279	$50,119	$2,230
You had a spouse and the combined rebate income of you and your spouse was less than…	$57,948	$83,580	$1,602
At any time during the year you and your spouse had to live apart due to illness or because one of you was in a nursing home and the combined rebate income of you and your spouse was less than…	$62,558	$95,198	$2,040

NOTE: No change to the maximum tax offset values or the reduction rate 12.5 cents applied for every $1 over the maximum rate threshold up to the cut off threshold.

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Timely tip for SMSFs: Audit your fund before annual return deadline

Many of you may just be getting back into your regular routine, but one thing to take note of if you are a self-managed superannuation fund (SMSF) trustee is that the 2012-13 SMSF annual return deadline is fast approaching.

Lodgement dates

For the 2012-13 annual return, the deadline for SMSFs that are wise enough to use a tax agent is May 15, 2014. This is in contrast to those trustees of SMSFs who are self-preparers, where the relevant dates for the 2012-13 annual return are:

- October 31, 2013 - for new registrants that prepare their own annual return (note that this date has now passed), and
- February 28, 2014 - for SMSFs that are not new registrants.

Note that earlier lodgement dates may apply where the fund has previously failed to lodge on time or have more than one return overdue.

Purpose of SMSF annual return

All SMSFs need to lodge an SMSF annual return each year in order to:

- report income tax
- report super regulatory information
- report member contributions, and
- pay the supervisory levy (currently $321 – made up of the $191 SMSF supervisory levy for the 2012-13 financial year and 50% of the SMSF supervisory levy for the 2013-14 financial year i.e. 50% of $259 rounded up).

Appointing an SMSF auditor

While May 15 may seem a little way off, you cannot lodge your SMSF annual return until you have had your SMSF audited. This is because you need information from the audit report to complete the regulatory information in the return.

Even though there may be no rush as such to complete the audit, bear in mind that if any compliance contraventions are identified, the auditor can alert you to those contraventions. This will give you a chance for rectification before the audit is finalised and the annual return lodged. This way, you can avoid being penalised by the Tax Office, or worse still, have your SMSF deemed non-compliant and losing your tax concessions.

The first step is to appoint an SMSF auditor. What you need to do is:

- check the auditor you intend to appoint is registered with the Australian Securities and Investments Commission (ASIC). ASIC will issue approved SMSF auditors with an SMSF auditor number – otherwise known as SAN – which you will need to fill out your annual return. Even though you may have previously used the same auditor, double check that they are registered
- contact the auditor early to allow sufficient time to conduct the audit and for this office to have enough time to lodge the SMSF annual return on time on your behalf, and
- appoint your auditor no later than 45 days (this recently changed from 30 days as of July 1, 2013) before May 15.

Some of the criteria that must be satisfied by an auditor are that they:

- must be independent and show freedom from bias, personal interest and association
- must not be a trustee or member of the fund
- must not have prepared accounts and statements for the SMSF
- must not be a relative or close associate.

Before an SMSF auditor can start an audit however, you (or this office) must provide information about your accounts and transactions for the previous financial year as well as statements and forms. Any additional information requested by your SMSF auditor must be provided within 14 days.

Below are examples of what you should have on hand in case your auditor wants to have a look:

- minutes of all meetings for a minimum of 10 years or since the establishment of the fund

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Timely tip for SMSFs: Audit your fund before annual return deadline (cont)

(if the fund is less than 10 years old) with details of all major decisions made including:
  - asset purchases
  - commencement of pensions
  - appointment of new members, and
  - review of investment strategy
- accounting records for a minimum of five years (or since the establishment of the fund if the fund is less than five years old)
- signed trustee declarations for trustees who became members of the fund after July 1, 2007
- proper accounting records such as statement of financial position and an operating statement
- copy of trust deed
- election or notice to be a regulated fund
- trustee representation letter which is a statement by the trustees that to the best of their knowledge, they have approved and taken responsibility for the correct presentation of the financial statements
- investment strategy that gives consideration to risk, return, liquidity and diversification
- financial report on the fund, and
- working papers including copies of all relevant documents that are important in providing evidence that support your findings and opinion.

Once they have all the relevant documentation, some of the compliance issues that your auditor will keep an eye out for are:

- was the fund maintained for the "sole purpose" of providing benefits to either members on retirement or dependants (in the case of a member's death)?
- does the fund meet the definition of an "SMSF" and has it chosen to be a regulated fund?
- does the trust deed and character of investments reflect this?
- does the fund have an investment strategy that complies with investment restrictions?
- did the fund give financial assistance to a fund member or relative?
- are the fund's SMSF assets separate from those held by trustees personally?
- do trustees adhere to contribution and benefit payment standards?
- were any assets sold, and was this at market value?
- do trustees carry out administrative obligations?

More broadly, your auditor is required to:

- examine your fund's financial statements
- assess your fund's overall compliance with the super law
- provide you with an audit report by the day before you are required to lodge your SMSF annual return, and
- provide you with their SAN as it will be required to be disclosed on the 2013 SMSF annual return and in subsequent returns if appropriate.

After the process is finalised, be sure that your auditor provides you with the following documents:

- a letter of audit engagement – confirms the appointment of the auditor by you and the scope of the audit to be conducted
- audit working papers – documents that record the planning, nature, timing and extent of the procedures of the audit process
- a management letter or audit finalisation report – provides a summary of the audit findings
- a copy of the final, signed financial report of the fund and relevant accounting records that support the statements for the income year under review, and
- a copy of the audit report on the approved form – this includes the auditor's opinion and qualifying remarks if any (you should keep copies of this for at least seven years).

Note that an audit is required even if no contributions or payments are made in the income year. It is worth noting however that when it comes to an annual return, the Tax Office's system will not accept one if at the end of the financial year the SMSF has no assets or no members; unless that is the year the fund is wound up.

Failure to lodge

Failure to lodge your SMSF annual return by the due date can result in penalties and the loss of tax concessions for your SMSF. Be sure to consult this office for help on how to appoint an approved auditor and lodge your annual return in time. ■

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Tax guide on the National Disability Insurance Scheme

The National Disability Insurance Scheme (NDIS) came into effect on July 1, 2013. Under the new system, disability support will be provided to eligible participants or their representatives on their behalf.

The income tax and GST implications should not be overlooked. If you are a supplier of disability support to participants, have you considered whether GST applies to your supplies? For participants or representatives who receive NDIS payments, have you considered whether the payment received is income tax exempt?

We run through the GST and income tax treatment affecting the relevant parties below.

GST treatment of supplies made to participants

From July 1, 2013, any supplies made by an entity (the supplier) to an NDIS participant (or representative) are GST-free subject to certain conditions being satisfied. Supplies that may be GST-free include sales of equipment, hiring of equipment, and services.

In particular, the following conditions must be met for a supply to be GST-free. The supply must be:

- to a participant for whom a plan is in effect under Section 37 of the National Disability Insurance Scheme Act 2013 (NDIS Act)
- of one or more of the reasonable and necessary supports specified in the statement of supports in the plan
- made under a written agreement between the supplier and the participant (or another person)
- between the supplier and the participant (or another person) that both:
  - identifies the participant
  - states that the supply is one or more of the reasonable and necessary supports specified in the statement of supports in the plan
- of a kind determined in a legislative instrument by the minister responsible for disability services.

The supplier will need to keep records that explain all transactions for its supplies, including a copy of the written agreement. Generally, the supplier will need to keep these records for a period of five years after completion of the relevant transaction.

The case study that follows illuminates the importance of a written agreement:

Case study: *Dmitri requires five hours of support on a weekly basis that is specified as reasonable and necessary in his plan. He requests XYZ Co to supply him with the support for a period of three months based on the NDIS published price. Dmitri provides XYZ with a letter identifying that he is a participant and the relevant part of his plan that specifies the type of support required. XYZ writes to Dmitri to confirm its agreement to provide the support, including the start date, and signs the letter.*

Outcome: If all the other requirements (see above) are met, the supplies that XYZ makes to Dmitri as specified in Dmitri's plan are GST-free.

Tax treatment for receipt of NDIS payments

(i) Participants

NDIS amounts received directly from the National Disability Insurance Agency (NDIA) for approved reasonable and necessary supports are exempt from income tax. Such participants are also exempt from income tax on NDIS amounts received when they are paid to another person on the participant's behalf, such as a nominated representative, or a registered plan management provider (RPMP).

A. Deductions

A participant cannot claim a deduction for assets purchased or expenditure incurred that are funded using NDIS amounts. This includes deductions for depreciation of capital assets or certain other capital expenditure. This is the case even if the participant uses the asset or incurred the expenditure in the course of gaining or producing assessable income.

B. Net medical expenses tax offset (NMETO)

A participant cannot claim the NMETO for medical expenses incurred to the extent that those medical expenses have been funded by NDIS amounts. However, if the participant uses their own funds then, depending on their personal circumstances, they may be eligible to claim the NMETO if they have eligible out-of-pocket medical expenses – for instance, to pay for medical expenses not covered by your NDIS amounts.

The case study below helps elucidate where and when the NMETO can be claimed.

Case study: Andrea is a participant under the NDIS who has elected to self-manage her plan. Under Andrea's plan, she receives $8,000 that is allocated for the purchase of a prosthetic limb, an eligible medical expense for the purposes of NMETO. However, Andrea wants to purchase a new more expensive model, which costs $12,000.

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Tax guide on the National Disability Insurance Scheme (cont)

Upon review, NDIA does not consider the additional cost of $4,000 for the newer model to be reasonable or necessary. However, Andrea decides to proceed with the more expensive purchase, and pays for the newer model using $4,000 from her own savings.

Outcome: Andrea is not entitled to the NMETO for $8,000 of the purchase price of her prosthetic limb because it is an amount that she is paid for the medical expense by government. However, because Andrea paid for the remaining $4,000 out of her personal savings, and it is an eligible medical expense, she may be able to claim the NMETO for this amount.

C. Participants who engage care providers – employer obligations

If a participant engages an attendant carer or a support person directly under a self-management plan, depending on the nature of the arrangement (volunteer, employee, or independent contractor), they may be required to undertake the responsibilities that an employer has, such as withholding amounts under the pay-as-you-go (PAYG) withholding system.

(ii) Representatives of participants

The income tax treatment for an NDIS amount received by a representative of a participant depends on the capacity in which they receive that amount. The various capacities are outlined below:

A. Nominated representative

For a representative (such as a nominee, parent or guardian) nominated to manage a participant's plan, an NDIS amount received:

- on behalf of the participant as their agent or trustee is not ordinary income in their hands
- for their own benefit for services they will or have provided to the participant under an arrangement with the participant may be assessable in their hands as ordinary income.

The case study below explains the income tax treatment of an NDIS amount if it is received by a guardian on behalf of a participant:

Case study: Sam is a participant under the NDIS who requires carer support as part of his plan. Sam has elected for the NDIA to pay $10,000 as per his plan directly to his guardian who will then use the entire NDIS amount to pay his care provider.

Outcome: Sam's guardian will not have to pay income tax on this $10,000 payment as it is received in the capacity of an agent/trustee.

B. Registered plan management provider (RPMP)

If, as an RPMP, a participant's NDIS amount is received:

- as an agent/trustee, it is not received by an RPMP as payment for any services it provides so the amount will not be ordinary income in its hands
- as payment for any services it provides, it may be assessable as ordinary income.

The case study below describes the income tax treatment of an NDIS amount if received by an RPMP on behalf of a participant.

Case study: Fabio is an NDIS participant who has arranged for an RPMP to manage his funding on his behalf. Under his plan, $5,000 is allocated for the purchase of a prosthetic limb and care services. The $5,000 is deposited into Fabio's RPMP's nominated trust account. Fabio's RPMP then appropriates for its own benefit $400 from the $5,000 deposited into the trust account for the care services and uses the balance ($4,600) to purchase Fabio's prosthetic limb.

Outcome: The $5,000 deposited into the RPMP's trust account is not income of the RPMP as it was received in the capacity of an agent/trustee. However, once the RPMP becomes entitled to its fee of $400, that fee is assessable income as it is a commercial provider.

A representative that purchases equipment or services on behalf of a participant using the participant's NDIS amounts is not entitled to:

- a deduction for the purchase price of that equipment or service, and
- a depreciation deduction for that equipment.

However, the case study below – an extrapolation of Fabio's situation above – highlights exceptions:

Case study: Fabio's RPMP used the $400 it appropriated to cover its fees to pay the wages of its employees who provide services to participants, including Fabio.

Outcome: As the RPMP is a commercial provider that is not exempt from income tax, it is entitled to a deduction for the wages it has paid using the $400 it has appropriated to cover its fees.

Similarly, if an RPMP incurs expenses or purchases assets on its own account, it should treat those expenses and assets in its accounts for accounting purposes in the way it normally would.

Consult this office to find out more about the GST and income tax implications in respect of the NDIS. ■

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