



Personal services income

Defines what personal services income (PSI) is and how to correctly record and report PSI.

Income that is PSI

Personal services income (PSI) is income produced mainly (more than 50%) from your skills or efforts as an individual.

Income that is not PSI

Certain types of income are not personal services income (PSI).

Working out if the PSI rules apply

How the personal services income (PSI) rules apply to you and how to self-assess based on your situation.

What to do when the PSI rules apply

When the PSI rules apply to your income, they affect how you report that PSI and the deductions you can claim.

What to do if the PSI rules don't apply

Even when the PSI rules don't apply, you still need to declare any PSI on your tax return.

Record keeping for PSI



If you've received personal services income (PSI), you need to ensure you keep the correct business records.

Seek further advice about PSI



Seek professional advice if you are still unsure about how the PSI rules apply to you or your business.

QC 16906

Income that is PSI

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Last updated 27 May 2025

What is PSI?

Personal services income (PSI) is income that is received by you, or another entity that is mainly a reward for your personal effort or skill. For example, income you earn as an independent contractor or income received by a company or trust that you provide your personal services through. The PSI rules are integrity rules that improve fairness by preventing those not carrying on a personal services business from:

- diverting their PSI to an entity or person associated with them who will pay less tax on it, and
- stopping them, or the entity receiving it, from claiming deductions for some expenses they couldn't claim if they had received the PSI as an employee.

Who can earn PSI?

You can receive PSI in almost any industry, trade or profession. Common examples include but are not limited to:

- financial professionals
- information technology consultants
- engineers
- construction workers
- medical practitioners.

As PSI is mainly a reward for an individual's personal efforts or skills, only individuals can earn PSI. Individuals can earn PSI either directly as a sole trader, or through another entity such as a company, partnership or trust. When an individual earns PSI indirectly through another entity, that entity is referred to as a 'personal services entity' (PSE).

Example 1: sole trader earning PSI

Andre is a plumber who operates as a sole trader. He receives a contract to fix a blocked toilet and repair 3 leaking taps. He charges \$25 for materials and \$225 for his labour. The total of the invoice is \$250. This income (\$250) is PSI as it is mainly a reward for Andre's personal efforts and skills.

Example 2: individual earning PSI through another entity

Sandy is an information technology consultant who provides systems analysis services through her company, SP Consulting. SP Consulting enters into a contract with Richie's Computer Co to provide Sandy's consultancy services. The contract and invoice for this work both indicate that more than 50% of the payment for these consultancy services are a reward for Sandy's labour. So the income is mainly a reward for Sandy's personal efforts or skills and is PSI.

For more information about PSI and its rules and obligations, see:

- Income that is not PSI
- What to do if the PSI rules apply
- What to do if the PSI rules don't apply
- Taxation Ruling TR 2022/3 *Income tax: personal services income and personal services businesses*

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Income that is not PSI

Certain types of income are not personal services income (PSI).

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Salary and wage earners

The PSI rules do not affect you if you're an employee receiving only salary and wages.

However, if you earn PSI indirectly through another entity (such as a company, partnership or trust) and you are an employee of that entity, then the PSI rules may still apply to that PSI.

There are a number of factors that determine whether you're working as a contractor or as an employee. See **Employee or contractor – what's the difference** for more information.

Supplying or selling goods

Although your personal efforts or skills may be required to make or produce an item for sale, where income is produced mainly from supplying or selling goods then the income is not PSI.

Where materials are only a minor part of the services provided, this is not regarded as supplying or selling goods. For example:

- the use of art supplies by a graphic designer in doing design work for a client
- the use of wiring by an electrician when installing wiring into a building.

Example 1: income from the sale of goods

Tam is a carpenter who operates a partnership with her spouse, Cho. Tam designs and constructs bespoke furniture and sells it through the partnership via the internet and at trade fairs. The payments made to the partnership are for the sale of the furniture rather than Tam's personal efforts or skills. Therefore, the income derived by the partnership is not PSI.

Example 2: income is not from the sale of goods

Henry is a plumber who operates as a sole trader. He receives a contract to repair a toilet and sink. He charges \$80 for materials and \$250 for his labour. The total of the invoice is \$330.

This income (\$330) is Henry's PSI as it is mainly a reward for his personal efforts or skills, and not for the sale of goods or materials.

Supplying or using an income-producing asset

Income that is generated mainly by an asset rather than an individual's efforts or skills is not PSI. It's more likely that income is being generated by an asset if the asset is:

- essential to performing the work
- large scale or high value
- specified in a contract.

In such cases, the asset is likely to represent more than 50% of the contract price. Therefore the income is not mainly attributable to the

efforts or skills of an individual.

Example 3: income from the supply or use of an income-producing asset

Jack is an experienced backhoe operator. His family company, Jack & Jill Pty Ltd owns a 10-tonne truck and a backhoe. Jack & Jill Pty Ltd enters into a contract with the Main Roads Department to dig trenches for laying sewerage pipes. The contract specifies that Jack & Jill Pty Ltd supplies a tractor with a backhoe and other special attachments, together with a licensed backhoe operator to work at specific locations.

Jack transports the backhoe on the truck to various construction sites at the request of the Main Roads Department. He then uses the backhoe to dig the trenches. The contract requires Jack & Jill Pty Ltd to provide specific plant and equipment to do the work. Without the backhoe and the truck, Jack & Jill Pty Ltd would not be able to gain or produce income.

The amount that is invoiced to the Main Roads Department is not mainly for the efforts and skills of Jack. The amount earned is mainly from the supply and use of the truck and backhoe. The income is therefore considered to be for the supply and use of income-producing assets and is not PSI.

Example 4: income is not from the supply or use of an income producing asset

Masha is a computer programmer, providing her services to clients through her trust, MH Trust. MH Trust contracts with Syntax Co to provide Masha's services in designing and building a new computer program. The program is intellectual property and all rights to its design belong to Syntax Co under the contract and not Masha or MH Trust. The new program will be owned by Syntax Co and copyright claimed.

The amount that is invoiced to Syntax Co is mainly for the efforts and skills of Masha in designing and building the new program. The income is therefore PSI.

This would be different if Masha had already designed and created a computer program and Syntax Co wanted to pay for the right to use the program. The income MH Trust receives from Syntax Co for use of the program (but not ownership of the program) would be considered to be for the supply and use of an income-producing asset and would not be PSI.

Income from a business structure

Income generated from the business structure of an entity, rather than from an individual's personal services, is not PSI.

The following information can help you decide whether your income is generated by a business structure.

Business structure factors to consider

Income is more likely to be generated from a business structure if your business has substantial income-producing assets, a number of employees, or both.

While you should consider your particular circumstances, the following factors will help you determine whether your income is generated by a business structure:

- the extent to which the income depends on a particular individual's own personal skills, efforts or expertise
- the number of arm's-length employees or others (for example, contractors) engaged to perform the work
- any presence of goodwill
- the extent to which income-producing assets are used to derive the income
- the nature of the activities carried out
- the size of the operation.

After considering these factors, if you determine that your income is generated from a business structure, then that income is not PSI.

Example 5: income from a business structure

Bella is an electrician who operates a partnership with her spouse, Jake. Jake does not perform any of the electrical work but performs some of the administrative work, like invoicing. Bella undertakes the work required by clients and engages 3 full-time employees who undertake electrical work for her. The partnership owns 2 vans equipped with the necessary tools and equipment that are used by Bella and her employees. The partnership has generated goodwill, having a trade name and approximately 150 regular clients.

The income is derived from the business structure of the partnership and is not PSI.

Example 6: income not from a business structure

Connie is an IT consultant who operates through a partnership with her brother, Luke, to provide IT services. Luke does not engage in any of the principal work of the partnership (that is, IT activities) although he provides minor administrative assistance. The partnership has no significant assets, no employees or other workers, and has not generated any significant goodwill. The income is not derived from the business structure of the partnership. As Connie is performing all the principal work of the partnership, the income derived by the partnership is Connie's PSI as it is mainly a reward for her personal efforts and skills.

If you're unsure whether you generate income through a business structure, you may need to **seek further advice** from us or a registered tax professional.

Other resources you can refer to:

- **Taxation Ruling TR 2022/3** *Income tax: personal services income and personal services businesses*
- Find out more about **professional firms** if your arrangement involves one.

What to do if the PSI rules don't apply

Even when the PSI rules don't apply, you still need to declare any PSI on your tax return.

Last updated 30 March 2017

Even when the personal services income (PSI) rules don't apply, you still need to declare any PSI amounts at the relevant labels on your tax return.

If you received PSI but found that the rules do not apply, there are no changes to the deductions you can claim against the income.

Although the PSI rules don't apply, if you've entered into an arrangement where the main purpose is to obtain a tax benefit, the general anti-avoidance rules may apply.

General anti-avoidance rules and PSI



In certain circumstances, the general anti-avoidance rules may apply to your personal services income arrangements.

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Overview of general anti-avoidance rules

This information is relevant to you if **both** of the following apply:

- You receive personal services income (PSI) as a sole trader or through your company, partnership or trust.
- The PSI rules don't apply to your income because you are carrying on a personal services business (PSB).

The PSI rules were introduced to prevent the diverting, alienating or splitting of income with other individuals or entities in an attempt to pay less tax.

The general anti-avoidance rules (GAAR) in Part IVA of the *Income Tax Assessment Act 1936* may still apply if you are a PSB and the PSI rules don't apply. For the GAAR to apply to your arrangement, there must be a sole or dominant purpose to obtain a tax benefit.

When the GAAR may apply

The GAAR may apply where there are factors indicating that the dominant purpose of the arrangement is to obtain a tax benefit by diverting, alienating or splitting your PSI or retaining profits in your lower-taxed company, partnership or trust (being an interposed entity).

In deciding whether the PSB has engaged in income splitting to gain a tax benefit, the following considerations may be relevant:

- Whether the salary or wages paid to you is commensurate with both the
 - skills you exercised or services you provided
 - income received by the PSB for your services.
- Remuneration commensurate to the value of your services will generally be the gross amount received by the PSB for your services, less allowable deductions (other than deductions associated with non-PSI income of the PSB or income splitting).
- Whether the PSB distributes income to associates and does not distribute income to you, the individual who provided the actual services.
- Whether the salary or wages paid to associates by the sole trader or PSB is not commensurate with both the

- skills exercised and services provided by the associate
- income received by the sole trader or PSB is for services performed by the individual (which is different to income being generated by assets of an interposed entity).

Examples include if you:

- use a company, partnership, or trust to retain profits from your PSI
- divert, alienate or split your PSI with an associate – which reduces your overall income tax liability, or
- create an entitlement to deductions which would not be available to an individual providing the same services as an employee.

Example: when the GAAR may apply

Jason provides services as a computer analyst through his trust, JB Trust. Jason's wife and children are also beneficiaries of JB Trust. The contract price for Jason's services is \$120,000.

Through the income year, Jason is paid a salary of \$50,000 by JB Trust to perform his services. JB Trust also incurs \$25,000 of deductions. The balance of \$45,000 is distributed to Jason's wife and children, who are in the lowest marginal tax rate.

The JB Trust self-assesses as a PSB due to passing the results test. The PSI rules don't apply to the income. The GAAR may apply to the arrangement JB Trust has in place, as Jason may be obtaining a tax benefit by splitting the income with his associates.

If the GAAR applied, then the tax benefits would be cancelled. This is done by making a determination, and relevant amounts would be deemed to be included in Jason's assessable income.

The GAAR Panel advises on the application of the GAAR to particular arrangements.

Practical Compliance Guideline (PCG) 2025/5

PCG 2025/5 Personal services businesses and Part IVA of the Income Tax Assessment Act 1936 has been developed to help you manage compliance risks where your PSI is derived through a personal services entity (PSE) conducting a PSB.

The guideline clarifies that passing a PSB test doesn't mean you can freely divert your PSI without it being considered tax avoidance. It also outlines the types of alienation arrangements we consider to be 'low-risk' or 'higher-risk' under Part IVA, and the likelihood of those arrangements being reviewed.

Part IVA can apply to any higher-risk arrangement; however, the amount of PSI diverted will always be a relevant factor in our decision to review or pursue Part IVA. In practice, we are more likely to target arrangements involving substantial distributions or payments to associated lower-tax persons or entities.

Importantly, you should not be concerned that we will apply compliance resources to pursue Part IVA where you have made a genuine attempt to move into a low-risk arrangement by **30 June 2027**.

We encourage you to promptly assess your circumstances and take any necessary action, as we will continue to review some higher risk arrangements in the meantime, and will evaluate if you have taken (or are in the process of taking) genuine corrective action. For clarity, this approach is not an amnesty and it does not affect any decisions already made, including Part IVA determinations and assessments from previous compliance activity.

For more information, visit *PCG 2025/5 Personal services businesses and Part IVA of the Income Tax Assessment Act 1936*.

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Record keeping for PSI

If you've received personal services income (PSI), you need to ensure you keep the correct business records.

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Recording your income and expenses is essential to understanding what income goes through your business and why. You need to **keep records** explaining all transactions that relate to your tax affairs, including personal services income (PSI).

Generally, you need to keep records of most transactions, in English, for 5 years. The 5 years starts from when you prepared or obtained the records, or completed the transactions (or acts they relate to), whichever is the later.

When working out if you receive PSI, you need to keep records that show:

- whether the income is PSI
- how you worked out if the PSI rules apply
- which expenses apply to any PSI received, and
- the deductions you can claim against the PSI.

If more than one individual is generating PSI, you need to keep records relating to **each** individual.

The types of records you may need to keep include:

- tax invoices
- time sheets submitted to the client or labour hire firm
- contracts with schedules
- diaries detailing what work was performed, when and for whom
- emails evidencing contract negotiation
- bank statements and receipts
- vehicle log books.

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Seek further advice about PSI

Seek professional advice if you are still unsure about how the PSI rules apply to you or your business.

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If you are still unsure about how the PSI rules apply to you or your business, you may need to seek professional advice from a registered tax professional. We can also provide **tailored technical assistance** in some circumstances.

You are responsible for the income you report and deductions you claim in your tax return, even if you use a registered tax professional to prepare it. Penalties may apply if you:

- don't report your income correctly, or
- claim deductions you are not entitled to.

These resources may also help you to clarify how the PSI rules apply to you or your business:

- *Taxation Ruling TR 2022/3 Income tax: personal services income and personal services businesses.*
- PSI flowchart

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Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

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