# *IT 126 - Assessment of medical practitioners*

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# TAXATION RULING NO. IT 126

## ASSESSMENT OF MEDICAL PRACTITIONERS

F.O.I. EMBARGO: May be released

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| REFERENCE NO: | SUBJECT REFS: | LEGISLAT. REFS: |
|---|---|---|
| I 1101204 | MEDICAL PRACTITIONERS | 51(1) |
| | PAYMENTS TO RELATED PERSONS | 65 |
| | EXPENSES | |
| | MOTOR VEHICLE | |
| | HOME OFFICE | |
| | ENTERTAINMENT | |
| | CONFERENCE | |

PREAMBLE Representations were made concerning the taxation treatment of claims for deductions made by medical practitioners.

2. As a consequence of suggestions that there was a lack of uniformity in the assessment of professional practitioners as between the various Branch Offices a review was made of the practices followed by various offices as a means of determining the reasonableness of certain amounts claimed as deductions by doctors.

3. The difficulties of achieving complete uniformity in the processing of claims by medical practitioners are, of course, fully recognised as, by nature, each particular claim ultimately turns on the factual situation established by the claimant. Nevertheless, to guard against criticism of inconsistent application of the law in respect of deductions claimed by doctors, it has been decided that some limited from of guidelines should be followed on Commonwealth-wide basis with the object of minimising these difficulties.

RULING 4. The principal area of concern involves payments made by doctors to compensate their wives for duties undertaken while assisting in the running of their practices. In determining reasonable levels of remuneration in these case, it has been decided that, where a doctor can establish that his wife has undertaken work on a full time basis which would otherwise be done by outside staff, the ruling award rates of pay for the particular category of work may be taken as the starting point in determining the reasonableness of claims for section 65 purposes. On the other hand, where the duties of the wife amount to nothing more than telephone answering and performance of minor clerical work occupying approximately three-four hours a day, remuneration calculated at the rate of $1 per hour would

not be considered excessive for the purposes of section 65. Each case would, of course, require examination in the light of its own particular facts.

5. In cases falling between these two extreme situations, for example, where a doctor's wife performs some duties which outside staff would otherwise provide while also attending to telephone calls, the assessment of the reasonableness of the level of remuneration will become largely a matter of judgment to be determined in the light of established facts. Due regard should be paid to such factors as:

(a) Whether a practice is conducted by a sole practitioner or by a partnership;

(b) The size of the partnership;

(c) Whether a country or urban practice.

6. With regard to claims made by doctors in respect of motor car running expenses applicable to business use, it is considered that where one car only is used 90% of the running costs would relate to the pursuit of the doctor's profession. However, in the case where it is claimed that a second car is used for business purposes, deductions in respect of running costs of that vehicle should be restricted to a maximum of 25% of total expenses unless special circumstances exist to warrant the allowance of a greater amount.

7. Claims for entertainment expenses by general practitioners should usually be disallowed unless a clear nexus can be established between the outgoing and the production of assessable income. However, because these claims are usually for estimated expenditure, it would appear that the adoption of a standard amount to be allowed under this heading may overcome some of the difficulties inherent in determining the reasonableness of these claims. Subject to any special features which may be known to exist in a particular case or where a claim is supported by reference to actual expenditure, claims for entertainment expenses of specialists in excess of $260 per annum should not be accepted without query.

8. Reasonable deductions claimed by doctors in respect of expenses incurred in attending post graduate conferences may be accepted where it is clear that attendance at a conference is the sole purposes for the expenditure. What constitutes reasonable expenses is largely a matter of judgment but normally an amount not in excess of $300 would be accepted without query. In cases where a dual purpose is involved with a doctor's attendance at a conference, queries will be necessary where sufficient information has not been supplied to facilitate an accurate assessment of the claim.

9. With regard to home office expenses, the principle established by the decisions in the Thomas case and the Faichney case should be followed. It will, of course, be necessary to distinguish between the claims where a doctor has a surgery at

his home and where separate business premises are maintained by the doctor away from his home and his home is used only for study or office purposes. In the latter instance, the deduction should be limited to a reasonable amount for light, power and depreciation of furnishings applicable to professional uses.

10. Other claims for deductions by medical practitioners should be considered on their merits as it would be in appropriate to assess the accuracy of claims under headings other than those referred to earlier in this ruling on anything but a factual basis.

COMMISSIONER OF TAXATION

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