

# PERSONAL SERVICES INCOME

Last updated: Feb 2017

Do you receive personal services income (PSI)? Do you pass the ATO tests to claim PSI? Complete this checklist to see if you receive personal services income.



## PERSONAL SERVICES INCOME

### What is Personal Services Income?

Personal Services Income (PSI) is income that is earned mainly by personal effort and skill, rather than from providing a good or from the use of an asset (eg excavator) or the right to use property (eg copyright).

When deciding whether someone should be classified as an employee or a contractor, the ATO applies tests. Each PSI business needs to pass at least one of these tests to satisfy the ATO that the income is personal services income, rather than employee income.

Income is classified as PSI when more than 50% of the amount you received for a contract was for your labour, skills or expertise.

### Results test

You'll 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:

**Question 1:** Under your contract or arrangement, will you only receive payment when the work has been completed - that is, after producing the contracted result?

To answer 'yes', your contract must stipulate:

- you have to produce an outcome before being paid, which may include progressive payments made after finishing specified milestones, and
- you are paid this way.

**Question 2:** Do you provide the tools and equipment necessary to do the work?

To answer 'yes' to this question, you need to supply all the equipment or tools that are required to complete the contracted work.

**Question 3:** Do you have to rectify defects in the work or are you liable for the cost of rectifying defects?

### The 80% rule

No more than 80% of your PSI can come from one source or their associates for the financial year.

### Unrelated Client Test

Does the income come from two or more unrelated clients?

To answer yes, unrelated clients must not be related to each other or to this individual, the entity or associate of either. The work must be obtained as a direct result of making offers to the public (ie advertising) and not through a labour hire company.

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### Employment Test

Do you get employees or other contractors to help with at least 20% of the principal work?  
Have you had any apprentices to help you earn personal services income for at least half the self-assessment year?

You must answer yes to either question and principal work must equal the main work rather than support work such as bookkeeping or administration.

### Business Premises Test

At all times in the income year were your business premises:

- owned or leased by you?
- used for personal services work more than 50% of the time?
- used exclusively by you?
- physically separate from your private residence or associates?
- physically separate from your clients business address?

To pass this test you must answer yes to all parts of the business premises test.

For further information: <https://www.ato.gov.au/Business/personal-services-income/>

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