

SERVICE ENTITIES

Do you currently operate your pharmacy using a service entity arrangement? Are you aware if this is the most efficient or effective structure to use? Are you confident that the arrangement is being conducted in line with ATO and Pharmacy Council guidelines?

At Bentley Brett & Vincent, we specialise in providing innovative business and taxation advice to pharmacists and other professionals in the medical industry. We can review your current arrangements and advise whether they are operating in accordance with the guidelines, or whether in fact there may be a better solution for you.

Some of the many issues surrounding the use of a service entity include:

- The service arrangement must be conducted on an arms length, commercial basis, with a service agreement in place between the pharmacy and the service entity that details the services to be provided and the fees to be charged.
- There must be an objective commercial basis for the fees charged under the service arrangement in order for a tax deduction to be claimed. If the fees are disproportionate to the benefits obtained by the pharmacy under the arrangement, or profits are generated in the service entity without evidence that any value has been added, then it is unlikely that the arrangement would be considered to be on a commercial basis. The ATO provides a detailed analysis of how the service fees charged should be calculated.
- The Pharmacy Council requires that the service fees charged must be reasonable so that any transfer of funds from the pharmacy to the service entity is not seen to dominate the resources of the pharmacy. Excessive fees could be interpreted as the service entity having a pecuniary interest in, or demonstrating control over, the pharmacy.
- The correct administration of a service entity arrangement can be time consuming and costly.

Whilst in some circumstances the maintaining of such an arrangement may be beneficial, at Bentley Brett & Vincent we are able to review your current arrangements for compliance & effectiveness and advise on alternative structures where appropriate.

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