

Contractor Rules for Medical and Allied Health Practices and Payroll Tax



Payroll tax audits and court cases during 2023 have brought the issue of payroll tax for medical practices into focus. Until recently, medical practices largely excluded contractors from calculations on the basis that the contractor operates their own business out of rooms rented from a medical practice.

Payroll tax is a state-administered tax with different rules, rates and thresholds in each state. Employers that pay employees or contractors totalling more than the state threshold must submit wage reports to the relevant state revenue office and pay the calculated payroll tax monthly.

A medical or health centre that pays contractors is deemed an employer for payroll tax; therefore, relevant payments made to the practitioner are treated the same as wages.

Many types of arrangements could be counted as relevant for payroll tax. Contractor agreements, service arrangements, and management or agency agreements could all be considered for payroll tax.

The Rules Haven't Changed

Various states have guidance on what contractors are included and excluded in payroll tax calculations. The recent focus is not because of changes to the law but because of audits and court cases where the final ruling required the practice to pay tax on contractor payments.

The rules in each state are similar but with some distinctions. It's essential to check the contractor guidance for inclusions and exclusions in your state. In addition, each state currently has different dates at which they will enforce the tax on medical practice contractor payments, with some states offering an amnesty.

What You Need to Do

If your medical or allied health practice pays employees and contractors above the state threshold, you must do an internal audit on agreements with contractors. Check your state's rulings on inclusions and exclusions and clarify written agreements with your contractors. If you need more clarification about the rules for contractors in your medical practice, start with the information at payrolltax.gov.au.

Payroll tax laws are notoriously complex and it's a good idea to get professional advice about which workers should be included.

Contact us today on 08 6118 6111 or hello@prescottsolutions.com.au to discuss more!