PERSONAL SERVICES INCOME



Are you a sole trader working as a contractor, consultant, or freelancer? Do you offer products or services that are based mainly on your personal skills and labour? If so, the income you receive may be classified as personal services income (PSI).

- Personal services income (PSI) is income that is mainly a reward for an individual's personal efforts or skills.
- Income is classified as PSI when more than **50%** of the income you've received is a reward for your personal efforts and skills, rather than being generated by the use of assets, the sale of goods, or a business structure.
- There are special tax rules around PSI to improve the integrity and equity of the tax system. **This means we cannot claim few expenses which are listed below. If PSI rules apply income will be taxed at individual marginal tax rates**.
- Personal services income is also NOT eligible for **Small business income tax offset.**

Common examples of **when income is not PSI is where 50% or more** is generated from:

- Your salary or wage – **however**, if you earn PSI indirectly through another entity this can still be classified as PSI
- Supplying or selling goods
- Supplying or using an income-producing asset
- Income from a business structure

You can receive PSI in almost any industry, trade, or profession. However, some common examples include:

- Financial professionals
- Information technology consultants
- Engineers
- Medical practitioners

Examples of PSI and non-PSI income

- Susan is a management consultant operating as a sole trader. She recently completed contracts for 2 of her clients.

- Contract 1: Susan provided a 1-hour training course for a client. She charged $1,000 for her course. This included training materials that cost $100. Since $900 (90% of the contract) is for her skills and expertise, this is PSI. Susan can report $1,000 as PSI.

- Contract 2: Susan provided management software for a client. She charged $10,000 in total. This included $8,000 to cover the cost of the software license. Since $2,000 (20% of the contract) is for her skills and expertise, this is not PSI. Susan cannot report PSI for this contract.



When personal services income (PSI) rules apply, there are limitations for deductions that can be claimed against this income. In general, an individual who earns PSI is treated as though they are in the same position as an employee.

Deductions you cannot claim

When the PSI rules apply, **you cannot claim deductions** against the PSI for:

- Rent, mortgage interest, rates, and land tax
- Payments to associates for non-principal work
- Super contributions for associates' non-principal work

Payments to associates for non-principal work

Payments made to an associate (for example, spouse, child, or other relative) cannot be claimed as a deduction for performing non-principal work.

Principal work is the work a business must perform under a contract to receive payment.

Non-principal work is incidental or support work that is not central to meeting obligations under a contract. For example, bookkeeping, issuing invoices, administrative duties, and running the home office.

Payments to associates include:

- remuneration such as a salary or commission

- an allowance
- reimbursement of an expense
- rent
- interest on a loan.

Example: non-principal work

Rodri generates PSI by providing marketing consultancy services, which is the principal work. Rodri employs his wife, Jenna to assist in the business. Jenna issues invoices, bank receipts and administers the home office, but does not perform any marketing consultancy services.

Rodri can't deduct the wages he pays to Jenna because issuing invoices, banking and administering the home office is not principal work.

Deductions you can claim

You can claim deductions against your PSI if an expense occurred earning this income.

For example, you could claim:

- The cost of gaining work, such as advertising, tenders and quotes
- Registration and licensing fees
- Account-keeping fees, including bank fees.
- Some insurance costs, including public liability and professional indemnity insurance fees.
- Salary or wages and super contributions for an employee engaged at arm's length (not an associate)
- Reasonable amounts paid to an associate for principal work.
- A portion of home office expenses, such as heating, lighting, phone and internet. Do not claim rent, mortgage interest, rates or land taxes.

You may be eligible for other deductions depending on what your business is and your contracts.