

EXTERNAL AUDIENCE	SERVICE ENTITY ARRANGEMENTS ONLINE SURVEY – CONSULTATION	13 JUNE 2008	UNCLASSIFIED
FORMAT	EVENT TYPE	ISSUE DATE	CLASSIFICATION



Australian Government
Australian Taxation Office

SUBJECT: Service Entity Arrangements Survey

We invite your members to participate in a research study conducted by independent researcher, NWC Research on behalf of the Australian Taxation Office (Tax Office). The purpose of the Service Entity Arrangements Survey is to test awareness, relevance and understanding concerning recent Tax Office initiatives in this area. We are also interested in your members' experiences with Tax Office communication channels and the relevant Tax Office advice and guidance products. The information will assist the Tax Office in its administration.

Background

Accountants, lawyers, medical practitioners and other professionals have, for many years, used service entities (usually trusts) to provide a range of services to their business/practice and for asset protection purposes. These service entity arrangements can and have also been used in the broader business community.

The services typically include labour, staff employed by the service entity, and the use of assets owned by the service entity. The business and the service entity are generally controlled by the taxpayer and their associates. The service fee charged to the business is usually calculated by way of a mark-up on some or all of the costs of the service entity. The business claims a deduction for the service fees as expenditure incurred. These arrangements are sometimes called *Phillips* arrangements.

Our concerns arose from audits conducted in the legal and accounting sector regarding practices adopted by some service entity arrangements. Concerns include:

- the service fees or charges were not commercially realistic;
- the service entities were highly integrated with the professional business and there was little or no clear evidence of substantial and discrete business activities conducted in the service entities; and
- the relevant documentation was either non-existent or did not reflect the substance of what actually occurred between the parties.

We were also concerned that the service entity arrangement may be a means for the division of business income to family members or other associates.

We have embarked on a range of activities, including industry consultation, compliance action and economic research, culminating in the production of advice and guidance products on service entity arrangements in April 2006.

Evaluation

We have a commitment to continually improve the information and communication products to taxpayers. Therefore, we are seeking your help.

An independent researcher NWC Research has been engaged to undertake a survey on taxpayer information needs and seek general feedback on the Tax Office and its administration of the tax system in this area. Participation in this survey will help us ensure that adequate advice,

guidance, assistance and support is being provided to taxpayers to help them meet their tax obligations.

The survey will focus on the following areas of interest:

1. Awareness and understanding
2. Product awareness
3. Effectiveness of products
4. Evaluation of Tax Office assistance

The results of this research will be used to gauge the effectiveness of Tax Office strategies in addressing concerns about service entity arrangements; to inform communication strategies; and for reporting, and evaluation purposes more generally.

How will the research be carried out?

The research will be conducted via a 15 minute online survey. The survey link is provided to you and can be distributed electronically to your members.

Introduction script to your members

We have prepared a short introduction that you can use to introduce the survey to your members.

Welcome to the Service Entity Arrangements Survey

You are invited to participate in a research study conducted by independent researcher NWC Research on behalf of the Australian Taxation Office (Tax Office). The purpose of this survey is to gauge awareness, relevance and understanding concerning recent Tax Office initiatives for service entity arrangements. We are also interested in your experiences with Tax Office communication channels and the relevant Tax Office advice and guidance products. Your responses will assist the Tax Office in its administration.

*The survey should take 15 minutes to complete. If you have to stop the survey at any time before completion, copy the full link **from your browser** and paste somewhere where you can access it again. Your answers will be saved automatically and you can return to complete the survey at another time using the **pasted** link.*

If you have any queries on accessing or completing the survey simply click on the email shown at the bottom right hand corner of each screen on the questionnaire (surveysupport@nwcresearch.com).

*The survey will **be available till 4th July 2008**.*

*Thank you for your participation. **You can access the survey by clicking on the link below.***

<http://www.nwc.com.au/websurvey/au572.asp>

Is the research confidential?

Yes. If your members decide to participate, I can assure you all contributions will be anonymous – all answers will remain strictly confidential. The Tax Office and NWC Research are bound by the Commonwealth Privacy Act and strict confidentiality principles to ensure that privacy is protected. Responses received from participants will be not be used for any purpose other than to conduct this research. Participation in the research is completely voluntary.

Your help in this study is important to its success and the future development of our services to taxpayers. We would greatly appreciate your participation.

If you require further information regarding this survey please contact Mark McMahon.

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