

# **‘When the audits start, all hell will break loose’**

## **TAX**

*Professionals are being singled out to pay more tax under the ATO’s “discriminatory” profit allocation guidance, says Tim Munro.*

By [Philip King](#) • 21 February 2023 • 5 minute read

The ATO has singled out professionals for unfair tax treatment in PCG 2021/4 and when the audits start “all hell will break loose”, says Tim Munro, CEO of Change Accountants and Change GPS.

He said the issue of professional firm profit allocation had flown under the radar of most Australians but large numbers will be affected by it.

“There’s nothing in the tax act [sic] that says who professionals are,” said Mr Munro, speaking on the latest Accountants Daily podcast, with PCG 2021/4 referring to the Australian Council of Professions as a “useful reference”.

“So a lot of accountants I don’t think realise the extent this covers – architects, lawyers, bookkeepers, possibly people running different trade organisations that could be viewed as professionals, obviously medical practitioners and a whole range of geologists, consultants, engineers – they’re all professionals.

“I think that this would apply to maybe 20 [to] 25 per cent of an average accountant’s client base.”

He said the effect of the ruling was to discriminate against those who use knowledge to earn.

“This ruling is all about the ATO saying, ‘We believe that if you’re a professional, it’s from your knowledge, and therefore you should be taxed more as an individual’.

“So if I’ve got a friend who is running a store down the road where they’re selling product, they can make the same profits that I could make running my accounting firm, they can split the money between their family to get an overall lower rate of tax – I’m not talking about tax avoidance, I’m just talking about normal things – but me, I’ve now got to make certain that I’m at least maintaining a 35 per cent average rate of tax, and distribute at least 50 per cent to myself ...

“It’s discriminatory, you shouldn’t have different tax rates and forced on you because of the type of income that you earn. And I don’t think that point has gotten out there, back to the majority of Australians. I think there’d been an outcry if people realised what was going on.

“It’s sneakily come through, not too many people are talking about it, but when the audits start, all hell will break loose.”

He said most professionals would end up paying more tax and accountants needed to be working with clients now to minimise risk or face tax office scrutiny next year.

“Most client groups, if they’re structured properly, probably pay anywhere between 28, 29, 30, 32 per cent on the total income. So this is pushing them into paying a fair bit more tax.

“Now, you don’t have to do it. But if the ATO does an audit, and finds that you didn’t go through this, that’s when there are going to be problems.

“The ATO require accountants to keep contemporaneous documentation – they’re the words that are in the PCG that are so important. So that means in this 2023 year, before the end of the year, accountants need to have working papers and documents to show, on file, how they’ve worked this out for their clients to show they fit within the green zone.”