

Working out if the PSI rules apply



Australian Government
Australian Taxation Office

Personal services income (PSI) is income produced from your personal skills or effort as an individual, regardless of your business structure. If you're receiving PSI, the PSI rules may apply.

To work out whether the PSI rules apply, you need to work through a series of steps. This flow chart guides you through the steps in the order you need to complete them. If more than one individual is generating PSI in your company, partnership or trust, you must follow the steps below for **each individual**.

This flow chart is a summary of more detailed information on our website. For full details about each step and your PSI obligations, visit ato.gov.au/PSI

- ! When we say 'you' or 'your business', we mean you as a sole trader or the entity you operate through (whether that is a company, partnership or trust).

Step 1: Have you received PSI?

Your first step is to look at each contract or job to work out if you have received PSI.

If **more than 50%** of the income received for a contract was for your labour, skills or expertise, then **all** income from that contract is classified as PSI.

Is any of your income classified as PSI?

Yes

Continue to Step 2 on the next page.

No

The PSI rules **don't** apply, so there are no changes to your tax obligations.



Steps 2 to 4 (the PSB tests) on the following page will help you work out if you're running a personal services business (PSB). You must work through them if you've received any PSI.

You're a PSB if your business passes one of the PSB tests.

If you're a PSB, the PSI rules **don't** apply to the PSI you've received. However, you must still declare PSI amounts at the relevant labels on your tax return.

If you're not a PSB, the PSI rules apply (see 'What to do when the PSI rules apply' at ato.gov.au/PSI).

The personal services business (PSB) tests

If you answered 'Yes' at Step 1 on the previous page, you must work through the PSB tests below.

! Remember: If more than one individual is generating PSI in your company, partnership or trust, you must work through the steps for **each individual**.

Step 2: Results test

For the PSI being tested, you must be:

- paid to produce a specific result
- required to provide the equipment or tools, and
- required to have mistakes fixed at your own expense.

To pass the results test, you need to meet all three conditions for **at least 75%** of the PSI being tested.

Do you meet **all** three conditions of the results test?

Yes

You pass the results test, so the PSI rules **don't apply**.

No

Continue to Step 3.

Step 3: The 80% rule

For this step, you need to work out how much of the PSI being tested comes from each of your clients (including their associates).

How much of the PSI comes from any **one particular client** (including their associates)?

Less than 80%

Continue to Step 4.

80% or more

The PSI rules apply. However, if you think you pass one of the remaining tests or if you have unusual circumstances, you can apply for a PSB determination.

Step 4: The remaining tests

There are three remaining tests:

- unrelated clients test
- employment test
- business premises test.

If you pass any **one** of these tests, the PSI rules do not apply to the PSI being tested.

Do you pass one of the three remaining tests?

Yes

You pass Step 4, so the PSI rules **don't apply**.

No

The PSI rules apply. However, if you believe your circumstances were unusual, you can apply for a PSB determination.