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ATO changes to trusts a concern for small enterprises

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SMALL businesses are becoming increasingly nervous about ATO changes to service trusts because they fear they will have to change the way their operations are run and lose money.

The most recent ruling by the ATO last month had affected businesses in the professional services, construction, manufacturing industries, McCullough Robertson partner in the business and revenue group Matthew Burgess said.

The ATO is targeting the amount paid for services provided to the business under service trust arrangements.

These arrangements generally are used by family businesses to protect the assets of the business for family members.

The trusts are used to supply services to the business with the cost of the service carrying a mark-up.

The ATO is questioning whether the fees are paid at a commercial rate and there has been significant concern from business owners uncertain of the affect the changes may have.

A seminar held by Brisbane-based McCullough Robertson earlier this month drew more than 100 people.

"Everyone has been talking over the past couple of months about what the impact of the guidance paper will be," Mr Burgess said.

"With the new financial year now under way, there is an increasing sense of urgency in many people's minds about what they need to do to make sure they do not run into trouble with the ATO.

"The feeling among many business owners seems to be that the guidance paper is a fairly radical document that is going to change the way they run their businesses and produce uncommercial outcomes.

"For many business owners, the level of profit achieved by the service trust could be as much as 80 per cent less than what they had historically enjoyed."

Without restructuring their business, owners could find their assets will be susceptible to more risk.

But one of the main concerns was that many service arrangements had not been formally recorded and the changes would require businesses to document through written agreements the details of the arrangements.

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