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TAX AND OTHER IMPLICATIONS OF ENGAGING SUB-CONTRACTORS

Overview

In many industries it has become the norm for businesses to sub-contract out work to individuals or other businesses. The building industry is a good example of this.

The Federal and State Governments have over time become concerned about this practice from the point of view of loss of income tax revenue and a reduction in coverage of individuals for workers compensation insurance and superannuation.

This facts sheet seeks to summarise the ramifications for businesses where sub contractors are engaged. This is meant as general advice and as this area is complex should not be taken as specific advice for your business.

Sub contractors: Where are you at risk?

- where you engage a contractor who primarily provides their labour and they work extensively (greater than 80% of their time) for you.

Areas to watch out for:

- An individual contracting on an hourly rate.
- Taking direction from business owner.
- Contractors primarily supply labour only.

Outcome for business owner

- Cost of sub contractors to be added to work cover calculation – leads to higher Work Cover insurance.
- Deemed an “employee” for Superannuation Guarantee charge and business liable for 9% SGC on total payments to contractor.
- Deemed an “employee” for payroll tax purposes and included in Payroll Tax calculation.

What to do if this may apply to you?

1. Review the basis of engagement of the Contractors and
 - factor in cost of Work Cover
 - deduct and remit the superannuation of 9%
2. Should the Contractor contract to you through a company or trust then these provisions may not apply.
3. Contact us to discuss your situation.

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