

RISK ASSESSMENT MATRIX

PCG 2021/D2: Practical Compliance Guideline PCG 2021/4

Allocation of professional firm profits

(includes, but are not limited to, those providing services in the accounting, architectural, engineering, financial services, legal and medical professions)

Proposed to apply from 1 July 2022

Risk assessment factor	Score					
	1	2	3	4	5	6
(1) Proportion of profit entitlement from the whole of firm group returned in the hands of the IPP	>90%	>75% to <90%	>60% to <75%	>50% to <60%	>25% to <50%	<25%
(2) Total effective tax rate for income received from the firm by the IPP and associated entities	>40%	>35% to <40%	>30% to <35%	>25% to <30%	>20% to <25%	<20%
(3) Remuneration returned in the hands of the IPP as a percentage of the commercial benchmark for the services provided to the firm	>200%	>150% to <200%	>100% to <150%	>90% to <100%	>70% to <90%	<70%

(IPP = Individual Professional Practitioner. i.e. individual who provides the service)

Risk zone	Risk level	Aggregate score against first two factors	Aggregate of all three factors*
Green	Low risk	<7	<10
Amber	Moderate risk	8	11 & 12
Red	High risk	>9	>13

Risk Zone	ATO Treatment
Green	<p>We will only apply compliance resources to review your allocation of profit in exceptional circumstances, such as where:</p> <ul style="list-style-type: none"> • We are not satisfied your self-assessment is correct, or is adequately supported with evidence • We become concerned that higher-risk features are present in your arrangement • We become concerned, from our own data and analysis, that there is a change in your arrangement causing a shift towards the border of compliance • We become concerned that your broader arrangements present a compliance risk (for example, with Division 7A of Part III of the ITAA 1936) • Your arrangement relates to a broader set of circumstances being reviewed by us • Changes to your arrangement may not have been appropriately treated or disclosed <p>Where there has been no material change, then we will generally only apply compliance resources to the arrangement to:</p> <ul style="list-style-type: none"> • Confirm your calculations were done according to this Guideline • Confirm the absence of any exclusionary factors (for example, the high-risk features under Gateway 2) • Provide binding advice where you request it
Amber	<p>We are likely to conduct further analysis on your arrangement</p> <p>We may contact you to understand the arrangement and resolve any areas of difference</p>
Red	<p>We will conduct further analysis on the facts and circumstances of your arrangement as a matter of priority</p> <p>If further analysis confirms the facts and circumstances of your arrangement remain high risk, we may proceed to audit where appropriate</p>