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ASX ANNOUNCEMENT

Pacific Smiles Group Limited (ASX: PSQ)

16 May 2023

PAYROLL TAX

Dentist service organisation Pacific Smiles Group (ASX:PSQ) advises that it has received a Determination Letter ("**Determination**") from Revenue New South Wales ("**Revenue NSW**") pertaining to the treatment of its Services and Facility Agreements ("**SFAs**") with dentists for payroll tax purposes. Specifically, the Determination concludes the SFAs are "relevant contracts" under the contractor provisions of the *Payroll Tax Act (NSW) 2007* ("**PTA**").

The Determination from Revenue NSW contends that the proportion of fees charged to patients retained by dentists who operate their practice within Pacific Smiles under an SFA will be subject to payroll tax as deemed wages, unless exempted by specific provisions under the PTA. The Determination makes reference to a recent NSW Civil and Administrative Tribunal decision in a payroll tax matter concerning Thomas and Naaz Pty Ltd, a GP clinic operator.

Pacific Smiles is reviewing the Determination in detail and is presently taking legal advice. Pacific Smiles has offered SFAs to dentists for over 20 years, since the company's inception in 2002, and does not agree with the views expressed by Revenue NSW in the Determination and will therefore make a detailed submission in response.

No assessment for payroll tax has been issued by Revenue NSW.

The maximum amount potentially due for Financial Year 2023, should the Revenue NSW position withstand challenge, would be between \$2.0 to \$2.5 million, although this would have to be reviewed and determined on a contract-by-contract basis taking into account other available payroll tax exemptions. It is open to Revenue NSW to retrospectively assess Pacific Smiles for payroll tax going back to Financial Year 2019 and to seek to impose penalties and interest. Any such amounts would depend on the outcome of our engagement with Revenue NSW in response to the Determination.

In addition to New South Wales, Pacific Smiles owns and operates dental centres in Victoria, Queensland and the Australian Capital Territory. We also operate dental centres under a Managed Service Agreement ("MSA") on behalf of HBF in Western Australia, HBF Dental.

In light of Revenue NSW's Determination, Pacific Smiles will seek early engagement with the revenue authorities in Victoria, Queensland and the Australian Capital Territory in order to understand their position on these same issues. Western Australia's payroll tax legislation does not impose payroll tax on relevant contracts.

Pacific Smiles notes that if payroll tax is imposed on dentist service organisations, and other medical clinic operators, it is a cost that on a go forward basis will need to flow through to patients in the form of higher fees and charges. This will adversely impact the millions of Australians who require access to primary health care each year, including dental services.

Given no assessment has been issued to pay additional payroll tax and Pacific Smiles is likely to formally oppose any such assessment, no provision has been booked for this matter. Pacific Smiles confirms that it remains on track to meet its guidance of \$270 million in patient fees and underlying EBITDA of \$24 million for Financial Year 2023.

Pacific Smiles will continue to keep the market and investors apprised of developments in relation to this matter in line with its continuous disclosure obligations.

ENDS

Authorised for release by the Board of Directors.

For further information, please contact:

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Forward looking statements

This announcement contains certain forward-looking statements. Forward looking statements should not be relied on as an indication or guarantee of future events. Forward looking statements involve inherent known and unknown risks and may involve significant elements of subjective judgment and assumptions as to future events which may or may not prove to be correct, which can cause actual results to differ materially. As such, undue reliance should not be placed on any forward-looking statement. No representation or warranty is made by any person as to the likelihood of achievement or reasonableness of any forward-looking statements. Pacific Smiles does not undertake any obligation to update or review any forward-looking statements (other than to the extent required by applicable law).