

The financial news your business needs.

Summer 2016

BUSINESS Bulletin

Christmas and the Taxman

Christmas is traditionally a time of giving – including employers showing gratitude towards staff for a job well done throughout the year. However gifts and Christmas Parties can attract the attention of the Taxman. With the Fringe Benefits Tax (FBT) rate now sitting at 49%, avoiding or minimising this impost is now more important than ever. This article looks at common Festive Season scenarios, how FBT applies, and how it may be minimised.

Dinner at a Restaurant

In certain circumstances an employer can hold a Christmas party for staff and have it exempt from FBT.

Take for example the quite common situation where an employer holds a Christmas party at a restaurant for employees and their partners and (besides from a Melbourne Cup lunch) it is the only social function they provide for employees during the year. Where this is the case, the total cost will generally be exempt from FBT provided the per-head cost (dinner and drinks) is kept to under \$300 per person. This is known as the Minor Benefits Exemption. To enjoy this exemption the employer must use the Actual Method for valuing FBT meal entertainment. The Actual Method is the default method for valuing meal entertainment, and no formal ATO election is required to use this method. Under the Actual Method, an employer pays FBT (in the absence of an exemption) on all taxable meal entertainment provided to employees and their associates such as spouses (entertainment provided to other parties such as clients, contractors, or suppliers is exempt from FBT).

If the meal entertainment meets the requirements of the Minor Benefits Exemption, the costs such as food and drink in respect of employees and their partners are exempt from FBT. Broadly speaking, under this Exemption the meal entertainment at a Christmas Party or other function will be exempt from FBT where its cost is less than \$300 per head **and**, where similar or identical benefits are provided such as at Melbourne Cup lunches, they are only provided on an infrequent or irregular basis. The downside of using the Minor Benefit Exemption is that the meal entertainment is not tax deductible, and nor can you claim a GST credit.

Reminder Dates

December 21

Due date for November monthly Activity Statements

January 21

Due date for December monthly Activity Statements except for Small Businesses (i.e less than \$10 million turnover) who report GST monthly and lodge electronically using a registered agent.

January 28

Due date for quarterly Superannuation Guarantee contributions

February 21

Due date for January monthly Activity Statements

February 21

Due date for December monthly Activity Statements for Small Businesses (i.e less than \$10 million turnover) who report GST monthly and lodge electronically using a registered agent.

February 28

Due date for quarterly (Oct-Dec) Activity Statements



This Minor Benefit Exemption is not available if you elect to value your meal entertainment under the alternative 50/50 Method. Under this method, you pay FBT on only 50% of all taxable meal entertainment provided to employees, spouses AND clients, contractors, customers etc. irrespective of the cost. Likewise, you can only claim a 50% income tax deduction and 50% GST credits on such meal entertainment. However, with the FBT rate now at 49%, the 50% tax deduction and 50% GST credits available under the 50/50 Method is unlikely to provide a better after-tax result than the Actual Method where no FBT is payable.

The “take-home message” is that if like a number of employers the only social functions you host for employees are the



Melbourne Cup and Christmas party, be conscious of keeping the per-head cost under \$300. By doing so, you may be able to exempt these functions from FBT.

Gifts

Provided gifts are only given at Christmas time and are less than \$300, the Minor Benefits Exemption can be used to exempt from FBT all sorts of common Christmas gifts to employees including hampers, gift vouchers, movie or sporting tickets, perfume, flowers, pen sets, bottles of alcohol etc.

Weekends Away

An employer may also consider rewarding all their staff at Christmas time with a weekend away, which may typically involve an evening meal at a restaurant followed by an overnight stay at a nearby hotel. Under the Actual Method (see earlier) FBT will be payable in respect of the accommodation which will be deemed to be meal entertainment as it is provided in connection with the restaurant meal. FBT will also be payable in respect to the dinner/drinks. FBT will apply to both employees and their partners. However, each of the benefits will be eligible for the \$300 Minor Benefits Exemption – with each receiving its own \$300 threshold (i.e. \$300 threshold for employee accommodation; \$300 threshold for partner accommodation; \$300 threshold for employee dinner/drinks; \$300 threshold for partner dinner/drinks). So, again, be conscious of this \$300 threshold when planning your event.

Cash Bonus

With the FBT rate sitting at a punitively high 49%, have you instead considered providing employees with a cash bonus rather than a non-cash benefit this Christmas? This transfers the tax liability to the employee to be assessed at their marginal tax rate, ensures the benefit does not attract FBT, and allows the employer to claim an income tax deduction for the full value of the bonus. (Note that superannuation is payable on such bonuses).

Leave Bonus

As an alternative to a cash bonus, if your business is shutting down over the Christmas break and your employees are required to take annual leave (over and above the Christmas Day, Boxing Day and New Year's Day public holidays) then you may wish to consider providing them with a leave bonus. This is where the compulsory annual leave days where your business is closed down (e.g. Tuesday 29 December to Thursday 31 December 2015) are not deducted from employee leave balances but instead are granted to them as a bonus by the business. Such a bonus does not attract income tax or FBT for either party, and has no immediate cash impact on your business.

Your Hip Pocket - Rising Interest Rates

Over the last few months the big four banks have on two separate occasions increased interest rates on owner occupier loans independently of the Reserve Bank, with many non-major lending institutions following suit. As a result, many Australians are now facing increased mortgage repayments. Indeed, with home loan rates at historic lows, over the next few years it's likely that the only way is up! There are three steps you can take to prepare for higher rates:



Do the Sums

The first and most obvious step is to work out how much your additional repayments will be (generally speaking, the larger the mortgage, the greater the repayment increase). Your mortgage broker can do the sums for you, or you can use your bank's online repayment calculator.

Update Your Budget

There's little point calculating your new repayments if you don't apply it to your household Budget. Having done so, if you find that you cannot comfortably meet your revised repayments you may need to reduce some non-essential expenses within your Budget such as entertainment etc.

Assess Your Options

This may involve fixing your interest rates or refinancing. This will require much research and can involve quite complex calculations. Again consult your mortgage broker – they can do all the legwork for you, and then furnish you with the relevant information so you can make an informed decision.

From the ATO - Handy Tools

In a recent Media Release the ATO listed the following new initiatives that can save you and your business time and effort including:

- Expanded online services through **myGov**, for example managing Activity Statements, entering into payment arrangements to repay ATO debits, and viewing income tax and ATO lodgement history



- The **Business Performance Check Tool**, which can provide your business with a snapshot of profitability, cash-flow, working capital and debt serviceability, as well as a comparison with similar businesses
- The **Small Business Newsroom**, which allows small businesses to subscribe to the latest news, and opt out of getting general ATO letters in the post
- **SuperStream**, which streamlines the superannuation process for employers
- **Voice authentication**, which is a quick and easy way to verify your identity when dealing with the ATO
- **myDeductions**, which helps individuals easily capture and classify work-related expenses
- **myTax**, which is the ATO's streamlined individual tax return lodgement service.

Are you utilising these facilities? If not, visit www.ato.gov.au to find out more

Begin with the end in mind

While many business owners will have a business plan, on a far broader level, what do you want from work? We all want different things from our labours ...some want to get rich, while others just want to make it through to the weekend. Only by beginning with the end in mind, can we put the stepping stones in place so we can get there.

For instance, if your dream is to eventually cut back your working hours while still maintaining ownership of your business (sort of like a passive revenue stream) then you'll need to ensure that you have systems and procedures in place so that your business can run independently of you. Systematising your business in this way is a massive task, so you'll need to get started. On the other hand, if you are planning on selling your business in the near term and living off the proceeds, then you need to make your business "sale-ready" so that prospective purchasers will be attracted and you maximise the sale price. There are many steps to take in doing this (speak with your accountant for direction). Alternatively, if you're in it to get rich, then you'll need long-term strategies in place to aggressively market your business and attract new customers.

Take some time this Christmas to reflect on the end you have in mind.



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