



MERRY CHRISTMAS!

We would like to take this opportunity to wish our clients, friends and associates a very safe and happy Christmas and a prosperous 2011!

The team at BBV will be having a break over Christmas, with our last day being Tuesday 21st December and the office will reopen on Tuesday 4th January. If you have any urgent matters during this period, please leave a message on 6652 3160 and we will get back to you as soon as possible.

Christmas parties

The holiday season is almost here, and many employers and businesses will be planning their annual Christmas party. However, an important issue to consider is the possible Fringe Benefits Tax (FBT) and income tax implications of providing 'entertainment' (which includes Christmas parties) to staff and clients.

Under the Tax Act, employers must choose how they calculate their FBT entertainment liability and most use either the actual method or the 50/50 method. However we will only discuss the actual method here as being the most common method used.

Christmas party held on the business premises: The costs (such as food and drink) associated with Christmas parties are exempt from FBT if they are provided on a working day on your business premises and consumed by your employees. However a taxable fringe benefit will arise in respect of an associate of an employee who attends the party unless the value provided to each associate is less than \$300.

Christmas party held off business premises: The costs associated with Christmas parties held off your business premises (for example, at a restaurant) will give rise to a taxable fringe benefit for employees and their associates unless the benefits are less than \$300 per person.

Tax deductibility of a Christmas party: The cost of providing a Christmas party is income tax deductible only if it is also subject to FBT. Therefore, any costs that are exempt from FBT (that is, exempt minor benefits of less than \$300 and a Christmas party held on the business premises) cannot be claimed as an income tax deduction. The costs of entertaining clients are not subject to FBT and are not income tax deductible.

The Tax Office accepts that different benefits provided at (or about) the same time are not added together when applying



the minor benefit threshold. Basically, this means that a Christmas party and gift may be exempt from FBT, even if provided at the same time, as long as the cost of each benefit is less than \$300.

Let's run through an example; an employer holds an external Christmas party for employees and their spouses. The cost of food and drink per person is \$250, and no other benefits are provided. If the actual method is adopted, for employees attending on their own or with their spouse – no FBT is payable (i.e., per head cost is less than \$300) and no tax deduction will be allowed.

Christmas and other gifts

In addition, many businesses will be considering what gifts, if any, they may provide to clients, suppliers, employees and possibly their family members. The following sets out the FBT and income tax consequences.

Gifts which **ARE NOT** considered to be entertainment generally include, for example:

- a Christmas hamper, a bottle of whisky, wine, etc.; and
- gift vouchers, a bottle of perfume, flowers, a pen set, etc.

In these cases, the FBT and tax consequences for these gifts are as follows:

- gifts to employees and family members of less than \$300 – no FBT and a tax deduction is allowed;
- gifts to employees and family members of \$300 or more – FBT is payable and a tax deduction is allowed; and
- gifts to clients, suppliers, etc. – no FBT and a tax deduction is allowed.

Gifts which **ARE** considered to be entertainment generally include, for example:



- tickets to attend a theatre, live play, sporting event, movie or the like; and
- a holiday airline ticket or admission ticket to an amusement centre.

Briefly, the general FBT and income tax consequences for these gifts are as follows:

- gifts to employees and family members – FBT is payable and a tax deduction is allowed (except where the minor benefit exemption applies); and
- gifts to clients, suppliers, etc. – no FBT and no tax deduction.

Hazards of property for Self Managed Superannuation Funds (SMSF)

The ATO has warned that a SMSF holding property could be sued if someone is injured or dies because of faults in that property.

The ATO provided a recent example of a property owner being held liable for the death of an electrician on their premises when replacing an old solar hot water system with a new one.

Therefore, if trustees own property in their SMSF, they should make sure they are aware, to the best of their ability, of any hazards on their property and, if any hazards do exist, they should have them fixed. They should also consider having an insurance policy in the SMSF to cover the property and public liability.

Superannuation contributions

In the context of providing an income stream in retirement, the level of contributions to super are more important than share market fluctuations when determining the adequacy of your income in retirement.

Of course, the state of the share market is important if you are just about to retire and need to realise your fund balance, however for someone with ten or more years to retirement it does not matter what today's share market is doing. What is important is the amount you contribute to super over your working lifetime, and to recognise that the more you put in earlier in your working life, the greater your retirement income is likely to be.

The secret is not to try and chase the gold at the end of the rainbow, but instead nurture a savings mentality by making contributions on a regular and continuous basis throughout your working life.

ATO's benchmarking to change the game forever!

Clients, without knowing it, have entered into a whole new game. And that game is recordkeeping.

The Tax Office's new benchmarking process means that for small businesses, the detail and the quality of taxpayers' record keeping is about to take the spotlight.

The message from the Tax Office is clear: keep demonstrably good records and the taxpayer has nothing to fear. Fail to keep good records and the onus will be on the taxpayer to prove the ATO wrong when they apply the benchmark. Not an easy thing to do if you didn't have the records in the first place.

The Tax Office has every intention of ensuring that taxpayers who report figures that do not line up with the benchmarks become aware that their record keeping is the only thing that will keep them safe from having the benchmarks applied.

The bottom line is being able to prove the income and expenses that are reported. If not, the benchmarks WILL be applied.

The ATO benchmarks can be accessed at; <http://www.ato.gov.au/businesses/pathway.asp?pc=001/003/102>

Team news

We are pleased to announce that Anita Perrett and her husband Michael are expecting their second child towards the middle of next year. Anita tells us her son Jayden can't wait to meet his new sibling. Our congratulations go out to Anita and her family. We wish them well and will keep you posted on the impending arrival of little baby Perrett.



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