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HBS October 2011 Newsletter for Businesses

Dear Client

Welcome to the October 2011 edition of our newsletter containing tax information for businesses. If you did not recently receive our newsletter for individuals and would like to please [contact us](#).

Please feel free to [forward our newsletter](#) to another business owner; they don't have to be a client to benefit from our FREE advice!

Staff availability during November and December

Both Kathryn and Allison will be attending a CPA conference between the 14th and 17th November and therefore not available. This is part of their ongoing commitment to retaining CPA membership which requires a minimum of 120 hours professional development in each three year period.

Kathryn will also be taking two weeks leave during December being that it is our quietest time of the year.

Also, please note that Connie has dropped back her availability to Mondays and Tuesdays only going forward.

CPA Conference – What we are learning for our clients

As part of the CPA Conference Allison and Kathryn are attending next week, they have been able to select the sessions they feel are most relevant to our clients. Here is a sample of presentations they will be attending:

- Sustainability – business innovation and biodiversity
- Business resilience – even when disaster strikes
- International development in the Pacific region
- Smarter decisions using business analytics
- Self-managed superannuation funds update – key issues to watch in 2012

Info gleaned from these sessions will be filtered through to clients via this newsletter, or if you want to know something specific in relation to these topics, contact Kathryn or Allison this week so they can ask questions on your behalf.

Fuel Tax Credit rate change

For those clients that prepare their own Business Activity Statements and claim fuel tax credits for heavy vehicles using public roads we remind you again that the rate per litre has decreased. If you use the online calculator you will be using

the most current information. To access the online calculator, please [click here](#), and bookmark it for future use. Rest assured, for those clients that we prepare BASs for, we are using the most current rates.

ATO focus on compliance

Well, we have said it before, and we'll say it again...the ATO are really cracking down on compliance issues. More and more we are noticing clients being penalized for late lodgment or being asked to provide further documentation to support claims. We cannot stress enough the importance of lodging all of your business obligations on time to avoid penalties. If you cannot afford to make the necessary payment you will have interest applied by the ATO to the debt, however penalties will be avoided by merely lodging the necessary 'paperwork' on time.

Company owners take note

For those companies that were incorporated prior to 2008 your constitution does not include provision for shareholders owing funds to the company. In this situation a Division 7a Loan Agreement will need to be prepared and signed to avoid an un-franked dividend (assessable income) being declared in the director's individual tax return. There is an additional fee of minimum \$77 involved in preparing this document.

Those directors that this affects will be contacted by their accountant in due course, however if you have questions in relation to this matter and whether it affects you please feel free to contact our office directly.

Should you set up a company?

Changes announced earlier in this year's Federal Budget may mean it is more favorable for you to change from being a partnership/sole trader to a company. From 1 July 2012 the small business tax rate will drop from 30% to 29%, the following year it will drop to 28%.

For those individuals that are a partner/sole trader and declaring income that is getting close to the \$80k threshold you may want to speak to your accountant to see whether changing to a company would benefit you.

Benefits of a company:

- Increased asset protection
- Greater access to capital
- Shareholders not liable for debts of the business
- Companies pay tax on their own profits
- Potential to pay yourself a 'wage'

Other things to consider:

- Establishing a company will cost minimum \$800
- There are greater tax reporting requirements (costs)
- Companies MUST make super contributions for all employees (includes company directors)

Reminder for those that have employees

Please ensure you are using the most current tax tables for your employees. Changes that will affect them include the inclusion of the low-income tax offset and the flood levy. If you do not use the most current tables your employees may end up with an end of year tax bill. Please call into one of our offices to collect a paper copy of the current tables, or use the [online PAYG calculator](#) to ensure you always use the most current rate.

Tax effective staff Christmas benefits

Christmas parties constitute 'entertainment benefits' and as such are subject to FBT unless specifically exempt, or the 'minor benefits' exemption applies.

A minor benefit is one that is provided to an employee or their associate (such as spouse) on an 'infrequent' or 'irregular' basis, which is not a reward for services, and the cost is less than \$300 'per benefit' inclusive of GST.

- **On-site Christmas party**

Holding the Christmas party on the business premises on a working day is usually the most tax effective. Expenses such as food and drink (including alcohol) are exempt from FBT for employees with no dollar limit, but no tax deduction or GST credit can be claimed.

However, where employees' families (that is, associates) also attend and the cost attributable to each associate is \$300 or more inclusive of GST, there is FBT on the associate's portion of food and drink, and a tax deduction and GST credit can be claimed on that portion. The cost of clients attending the party are not subject to FBT, but no income tax deduction or GST credit can be claimed on their portion of the cost.

Where the Christmas party is held on the business premises on a working day with only employees and clients attending, and only finger food or a light meal and no alcohol is provided, then the entire cost is tax deductible. There is no FBT and a GST credit can be claimed on the entire cost.

- **(ii) Off-site Christmas party**

Christmas parties held off the business premises are exempt from FBT where the cost for the employee and their associate is each less than \$300 inclusive of GST but no tax deduction or GST credit can be claimed. The cost of clients attending the party are not subject to FBT, and no tax deduction or GST credit can be claimed on their portion of the cost.

As mentioned above, benefits provided to employees at the Christmas function are considered separately when applying the \$300 minor benefits exemption. For example, a Christmas party is held at a restaurant costing \$220 per head, and at the same time employees are provided with a Christmas hamper (considered a non-entertainment gift), costing \$150. Although the total cost is more than \$300, the provision of both benefits will usually be exempt from FBT under the minor benefits exemption.

For the Christmas party expenses, the business will not be entitled to claim either a tax deduction or a GST credit. However, a tax deduction and GST credit claim should be available on the cost of the hamper as this is not considered to be 'entertainment'.

- **Inviting the family**

Employees can make the Christmas party a family affair. Not only will it be a more inclusive experience, the ATO says the \$300 minor benefits threshold applies per-attendee, not per-employee, which potentially means more FBT-free benefits.

- **Gifts**

Non-entertainment gifts provided to employees are usually exempt from FBT where the total value is less than \$300 inclusive of GST. A tax deduction and GST credit can also be claimed. These include skincare and beauty products, flowers, wine, perfumes, gift vouchers and hampers as mentioned above.

Non-entertainment gifts given to clients and suppliers do not fall within the FBT rules as they are not provided to employees. Generally a tax deduction and GST credit can be claimed for these gifts, provided they are not excessive or overly valuable.

The provision of entertainment gifts has different tax implications (examples include theatre tickets, passes to attend a musical, live play, movie, tickets to a sporting event or providing a holiday). Where the cost for the employee and their

associate is each less than \$300 GST inclusive, FBT is not payable, and no tax deduction or GST credit can be claimed.

However, if the cost for the employee and their associate is each \$300 or more GST inclusive, a tax deduction and GST credit can be claimed, but FBT is payable. The cost of any entertainment gifts provided to clients is not subject to FBT, and no tax deduction or GST credit can be claimed.

It is important that businesses maintain separate accounts in the general ledger for recording the above transactions to ensure that the correct income tax, GST and FBT treatment is applied. As always, if you have any questions please contact your accountant.

Key dates for Business Taxpayers

21 November 2011 – Monthly activity statement for October 2011 lodgment due date

25 November 2011 – Quarterly activity statement for Jul/Sep quarter due for electronic lodgment

1 December 2011 – Payment of income tax for companies and super funds where lodgment of the income tax return was due 31 October 2011 (mostly applies to previous late lodgers)

Want to see some particular tax topic/tip mentioned here? Please [contact us](#) with your request, we are more than happy to oblige.

Regards
The HBS Team
Kathryn, Allison, Connie, Lyn, Tina, Nikki and Katherine

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.

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Appointment

