



ELIZABETH A CLIFFORD & CO

Certified Practising Accountant
and Tax Agent



Merry Christmas and Happy New Year!



From all of us at Elizabeth A Clifford & Co we wish you every happiness this Christmas season and throughout the coming year. Thank you for your support in 2010.

Closing dates for Christmas & New Years

Our office will be closed from Thursday 23rd December and will re-open Monday 10th January 2011.

ATO Benchmarking—Small Business

The ATO's new benchmarking process (which sets out average income and other benchmarks for 100 industries) means that, for small businesses, the detail and the quality of taxpayers' record-keeping is about to take the spotlight.

What the ATO has to say

The ATO says that in dealing with the cash economy it isn't their intention to issue arbitrary default assessments, and that there is a robust process they follow in relation to benchmarking audits.

The ATO 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.

There may be other compelling reasons, such

as sickness or extended breaks from work which the ATO will take into account, **but the bottom line is being able to prove the income and expenses that are reported.** If not, the benchmarks **will** be applied.

It is therefore important that all business keep good records. Fail to keep good records and the onus will be on the taxpayer to prove the ATO wrong, if and when they apply the benchmark and issue a default assessment.

We have experienced bookkeepers who can help you maintain good records. If you do get any letters or other communication from the ATO in relations to benchmarking please contact Liz or Jane at our office immediately.



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Providing Tax Effective Christmas Benefits

The December/January break is on the way, and many employers and businesses will be planning their annual year-end break-up party. When planning your Christmas function you need to **be aware of the Fringe Benefits Tax (FBT) implications.**

Christmas parties

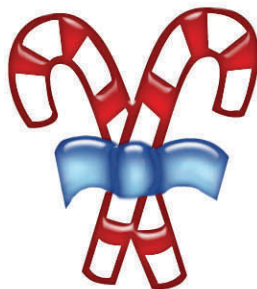
Christmas parties constitute "entertainment benefits" and as such are subject to FBT unless the "minor benefits" exemption applies. A **minor benefit** is one that is provided to an employee or their associate (e.g. spouse) on an "infrequent" or "irregular" basis, which is not a reward for services, and the cost is **less than \$300** "per benefit" inclusive of GST.

Holding the Christmas **on the business premises** on a **working day** means 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, don't invite employees' families (i.e. associates) as the cost attributable to the associate if \$300 or more inclusive of GST, will be subject to FBT. 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.

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.

Importantly, 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 \$85. 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".

Gifts

Non-entertainment gifts (eg skincare & beauty products, flowers, wine, perfumes, gift vouchers, hampers) 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.

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.

Giving your employees an **entertainment gift** (eg theatre tickets, passes to attend a musical, live play, movie, tickets to a sporting event or providing a holiday) has different tax implications. Again if 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. If the cost for the employee and their associate is each \$300.00 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.



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