

END OF YEAR UPDATE

The end of year guide for you and your business

New Year PREPARATION

Effective tax planning for the year ahead

For business owners, an accountant or other adviser can be of significant importance. As accountants we are involved in more than preparing financial statements and tax returns. We are able to provide assistance on anything from estate planning to business financing. In most cases, accountants are more than just another outside professional; he or she is a trusted advisor – and an integral part of the business family.

Ideally, the client/accountant relationship provides for ongoing advice, often prompted by your questions about ways to improve the company's finances and operations. Well thought-out questions from clients also help to ensure that together, we will prevent or solve major problems and take advantage of emerging opportunities for you and your business.

What kind of issues can clients ask their accountants? The following guide is designed to be a thought provoker that you may care to review to help you or your business to become more effective.



Merry Christmas

We would like to take this opportunity to wish all our clients and their families a very happy Christmas.

We will be taking a short break over the Christmas period. Our end of business will be from 23/12/2009 to 11/01/2010.

Consider FBT this festive season

Despite the financial rollercoaster of the last 12 months, most businesses will still want to thank their employees and customers for their ongoing support. Christmas parties and gifts are a way of doing this during the festive season.

However, employers should be careful to remember the potential Fringe Benefits Tax (FBT) implications that can arise. This means that in most cases, employers can spend up to \$300 per employee (including Christmas parties) without being subject to FBT. The minor benefits threshold of less than \$300 relates to each benefit provided, not to the total value of all associated benefits provided to employees and their families.

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MEAD PARTNERS

Level 1
28 Riddell Parade
Elsternwick
VIC 3185

•
TEL 03 9523 2277
FAX 03 9523 2177

•
E-MAIL
john@meadpartners.com.au

WEBSITE
www.meadpartners.com.au

•
DIRECTORS
John Pitivity
Justin Sparks

Business Advisory
Taxation Advice
Other High Value Services



**Chartered
Accountant**



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Standards Legislation.

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For example, the \$300 minor benefits exemption will usually mean that Christmas-time entertainment up to a value of \$300 per employee will not be subject to FBT. The \$300 limit applies to each benefit provided. If, at Christmas time, an employer gives an employee a hamper or gift voucher, for instance (provided the value is below \$300), it will generally be exempt from FBT.

Where an employer provides gifts at a Christmas party for employees, the gift and the value of the party are each considered separately for FBT purposes. If each is below \$300, they will generally be exempt from FBT.

Employers should be aware that the cost of providing a Christmas party is deductible only to the extent that it is subject to FBT. That means that, any costs that are exempt from FBT (for example, exempt minor benefits and exempt property benefits) cannot be claimed as an income tax deduction.

Some employers looking for a cost effective approach consider hosting a Christmas party on the business premises. There may be some decorating costs, but providing things like food and alcoholic beverages would be exempt from FBT if only employees attend. If wives and partners attend, the cost would still be exempt from FBT if it is less than \$300 per head.

On the other hand, where a Christmas party is held at a restaurant, for example, a different set of rules apply. The FBT exemption still applies for employees attending, but FBT will be payable in respect of employees and their associates where the cost is above \$300.

For clients, things are much simpler. In both cases, there is no FBT payable for clients who attend. The costs of entertaining clients are not subject to FBT and are not income tax deductible.



If an employer routinely rewards employees in the form of gifts, the FBT obligations might change. Regular small benefits such as those provided under an employee incentive schemes usually trigger an FBT liability.

Employers who are in a position to provide in-house benefits face a different set of rules. There is an exemption for the first \$1,000 GST inclusive of in-house benefits provided each FBT year to an employee or associate. The exemption applies to goods and services which the employer in the ordinary course of its business sells or supplies to a third party.

Where a business sells goods to the public, the taxable value is calculated by taking 75 percent of the lowest price the goods are normally sold, less the \$1,000 exemption. For example, a retailer can provide free goods to an employee during the FBT year up to the value of \$1,333 without incurring an FBT liability ($\$1,333 \times 75 \text{ percent} - \$1,000 = \text{zero taxable value}$).

ATO PAYMENT ARRANGEMENTS

The ATO have been receptive to the needs of small businesses over the last 12 months, offering payment arrangements to assist businesses with short term cash flow issues which have impaired their ability meet tax payment obligations.

Payment arrangements are commonly used to help taxpayers who are experiencing difficulties meeting tax obligations to get back on track. So far, the response from small businesses to these arrangements has generally been positive. However, defaulted payment arrangements can present a significant problem.



What is a defaulted arrangement?

A defaulted payment arrangement occurs when the balance of a taxpayer's debt is more than it should be at a given date. For instance, where a debt should be \$5000 by the end of December and non-payment and additional interest causes the debt to be over that level, a default occurs.

This is different from a cancelled arrangement. An arrangement is cancelled when a taxpayer who already has an arrangement, contacts the ATO because their circumstances have changed and their arrangement is no longer suitable. The arrangement is cancelled and a new one is generally entered into.

Taxpayers must ensure payments reach the ATO on or before the due date to avoid a defaulted arrangement. Different methods of payment have different processing times, so it is important to use an appropriate payment method and one that allows adequate time to reach the ATO.

Implications of defaulting on a payment arrangement.

The ATO has encouraged taxpayers who are experiencing difficulty keeping up their payment arrangements to contact them early to discuss their circumstances. By doing this, they can avoid having a defaulted payment arrangement.

Whilst the ATO has demonstrated some flexibility, they are focused on keeping things fair for all taxpayers and ensuring that those doing the right thing are not disadvantaged. When considering a request, the ATO takes many factors into consideration, including compliance history.

Holiday Survival Guide

The holiday season has almost arrived, and it is always a stressful time for anyone who runs a business. For those in retail, the entire year's figures can depend on sales during the next few weeks. For every business, the holidays present unique challenges and opportunities.

Here are a number of tips for making it through the holiday season successfully:

- Watch your cash flow. The holiday season is usually either the busiest or the slowest time of year. This means cash management is critical. So, if this is a high-income time for your business, put money in a reserve account. If this is a lean time, reduce expenses as much as possible and when your income increases, start a reserve account to get you through next year's holidays.
- Holiday cards. The holidays give you a perfect excuse to stay in touch with current and past customers. Sending a holiday card is a relatively easy and inexpensive way to remind someone that you exist.
- Holiday gifts. Now is also a time to thank people who help make your business a success, such as major customers, referral sources, strategic partners and employees. Gifts don't need to be big or expensive to let someone know that they are being appreciated.
- Holiday specials. Create gift packages by 'bundling' a number of products or services together. Bundles increase total sales amounts for you and provide your customers with excellent values.
- Gift certificates and gift cards. Gift cards have become extremely popular with consumers. It doesn't really matter what kind of business you are: even lawn mowing services can benefit by selling gift certificates. If this is a slow season, one way to increase cash flow now is to offer customers gift certificates at a discount; regular customers can buy them to use later, providing you with an injection of cash.
- Attending functions. Many businesses hold holiday parties. This is an ideal time to increase networking and look for clients for the New Year.
- Hosting functions. Parties are a good way to connect with customers and referral sources. They can also be a good way to get people to come to a place of business if you have a store or office. A holiday party doesn't need to be elaborate.
- Keep your priorities straight. Remember the things that are really important: family, friends, and community. Spend time with those you truly care for and give to those who are less fortunate. And remember, the New Year is not far away.

Concessional contributions reduced

There have been many changes to superannuation and related tax laws over the last 12 months. One of the most significant is the reduction in the concessional contributions cap.

In the 2009 Federal Budget, the government announced a reduction of the:

- concessional contributions cap from \$50,000 to \$25,000 (indexed)
- transitional concessional contributions cap from \$100,000 to \$50,000 (not indexed) for those aged 50 years or older for the 2009–10 to 2011–12 financial years.

Legislation has been passed in relation to these changes.

The \$150,000 annual cap (indexed) on non-concessional contributions remains for the 2009–10 financial year. Moving forward, the non-concessional cap will be six times the value of the (indexed) concessional contributions cap.

The ATO is keen to ensure taxpayers are familiar with these new limits. Where limits are exceeded, penalties apply in the form of an excess contributions tax (ECT).

The ATO identifies cases where the contribution caps have been exceeded from the information available in member contributions statements (MCSs) which superannuation funds are required to prepare and lodge annually. The ATO is able to match MCS information to individual income tax return data in order to identify concessional and non-concessional contributions.

Where an apparent contributions cap has been exceeded, the ATO will issue a pre-assessment letter to the taxpayer, setting out the relevant information. Taxpayers have 28 days to respond or correct the information.

If necessary, the ATO raises an ECT assessment and the taxpayer will be provided with an authority for the funds to pay for the amount of tax due.

Where the non-concessional contributions cap is exceeded, use of the release authority is compulsory and the ATO has said it will follow up to ensure that an amount equal to the tax assessed is released from the superannuation system.

The ongoing changes to laws affecting superannuation can make it difficult for taxpayers to comply and the recent changes to the superannuation caps can easily trap the unaware. Whilst the ATO is trying to help there is no substitute for early planning and professional advice.





Deadline for investment tax break

Businesses have until 31 December to take advantage of the additional tax deduction for eligible, depreciating assets.

Small businesses (those with an annual turnover of less than \$2million) can claim a 50 percent tax deduction on the cost of eligible assets that they buy between 13 December 2008 and 31 December 2009, and first use or install by 31 December 2010.

Businesses turning over more than \$2million may be eligible for a 30 percent tax deduction for assets they bought by 30 June 2009. A 10 percent deduction may be available, depending on when they buy and first use or install the assets.

The tax break is an additional benefit – clients can still claim a deduction for the decline in value of eligible assets. To receive the deduction, small businesses must spend at least \$1,000 on an eligible asset. For all other businesses (where annual turnover is above \$2 million), it's \$10,000.

Businesses can combine the cost of assets that form part of a set or are identical or substantially identical, in order to help reach these thresholds.

The end of the calendar year is quickly approaching. With the economy slowly growing and profits forecast on the rise, claiming the additional tax deduction may be a useful tax planning strategy for the coming year.

Make the most of your accountant

It does not matter how long a business has been operating, it is always a good idea to take stock and get some independent advice from time to time. The end of year is an ideal time to take stock, catch a breath and look at what could be done a little better for the year ahead.

Here are some questions to raise when you meet with your accountant:

- What is the best way to allocate assets for maximum tax efficiency?
- Am I pricing my products and services correctly?
- What strategies can I use to defer my income tax?
- What taxation implications are there for me when I go to sell my business?
- How do I prepare cash flow statements and how do I use them as management tools?

CHRISTMAS & NEW YEAR CHECKLIST

- ✓ **Staff leave**
Find an open and fair way of deciding who will provide cover over the holiday period if you need it.
- ✓ **Keep staff motivated**
Give staff clear targets of what you expect them to achieve, or they may start celebrating early.
- ✓ **Manage cash flow**
Identify and chase important invoices. Accounts departments may go on leave earlier than you expect.
- ✓ **Security**
For many businesses this is the longest period when no one is on the premises, and burglars know that. Review your security and ensure that all computer files are backed up off site.
- ✓ **Customers and suppliers on holiday**
Be prepared for contacts to disappear from the middle of December.
- ✓ **Create a contact database**
The best source of a future customer is a past customer. Many businesses keep their client list or referral sources in a word processing document or in a pile of business cards. Use the holiday period to get software to organise all your contacts.
- ✓ **Clean out the office**
Now is the time to get rid of all those unopened trade magazines lying around the office. Use time during the holiday period to organise the files on your computer. Backup and delete any unused file.
- ✓ **Prepare to start marketing**
Make a list of people you want to contact early in the new year. On that list, include key referral sources and important customers. Compose emails now to send in the first week in January.
- ✓ **Get a health check**
Review the health of your business and identify potential issues and opportunities.
- ✓ **Review cashflow**
Dramatic changes in turnover, Christmas bonuses and low productivity, can all have an impact on cashflow.

We Are Here To Help

Make good use of us! This guide is merely a starting point, designed to help you identify areas that might have a significant impact on your tax planning.

Please keep us informed of your plans and consult us early for help in taking advantage of tax-saving opportunities and tax efficient investments.

