

THE BOTTOM LINE

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(1) CHRISTMAS CHEER AND THE ATO

With the December festive season now upon us, it's time to remind you again to be aware of some of the potential tax traps in spreading the season's festive goodwill.

A bit like an unwanted guest who turns up at your party without an invitation, the ATO has an interest in your office festive season events especially from a fringe benefits tax (FBT) point of view.

FORWARD PLANNING IS ESSENTIAL

The impact of FBT rules on Christmas celebrations can be particularly vexing. It's absolutely essential to get advice about what to do beforehand to keep things under control.

Christmas parties and FBT

The potential FBT consequences of your Christmas party can be tricky because of the different ways FBT can impact on different types of people, costs and situations.

Whether you're likely to have an FBT problem depends on:

- where and when you have your party;
- who comes; and
- how much it costs.

We can't cover all the possibilities, but here are some outcomes for you to consider.

Celebrating on site

If you hold your party on a work day at your business premises and only your employees attend, costs such as food and drink are FBT exempt, regardless of what the cost is per head for each employee.

However, if you also invite your employees' associates (e.g., family) and perhaps some clients then it gets a bit more complicated:

- what you spend on entertaining your employees' associates are taxable fringe benefits and you'll need to work out whether you have an FBT liability; and
- what you spend on your clients may be exempt from FBT altogether.

TIP

Food and drink you provide to your clients is likely to be exempt from FBT whether at a social or business function on or off your business premises.

Celebrating offsite or not on a work day

If your party isn't held on a work day or on your business premises (e.g., you head off to the local restaurant), the FBT alarm bells can really start to ring loud and clear.

However, if you can contain your costs by keeping them under \$300 per head for your employees and employees' associates – you may be able to reduce your FBT liability by relying on the *minor benefit exemption*.

Calculating whether you come in below the \$300 minor benefit threshold can be tricky.

For example, the cost per head includes the cost of food and drink and other items like:

- the cost of transport to venues; and
- taxis home.

A happy gift giving experience

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Give some careful thought to how you give gifts to your employees at Christmas time:

- if you are also handing out gifts to your employees at the party, the ATO now considers them separately from the cost per head with regards to the party – you may be able to rely on the *minor benefits exemption* for a Christmas gift of less than \$300 in value, which is considered to be a separate benefit from the party itself;
- if you don't hand out gifts at the party but at some other time, it's possible that you may still be able to rely on the *minor benefit exemption* at that time if the value of each gift is less than \$300; and
- as an alternative, if the gifts you give are products that you would normally sell to members of the public, there is another exemption of \$1,000 per annum for each employee that may apply (called an in-house exempt property benefit).

What's tax deductible?

(2) CASH FLOW MANAGEMENT TIPS

With talk of tighter credit conditions, a slowing economy and everyone anxiously watching interest rates, it's important for business owners to keep a tight reign on their cash flows.

If your cash flows are flagging, it's time to focus on your debt collection practices and zero in on collecting outstanding debts from your clients and customers.

Seven golden rules of debt collection

- ensure your invoices clearly indicate exactly when you expect payment
- to encourage payment, you may consider offering a discount if the invoice is paid before the due date
- on the other hand, if your clients are outside your terms of trade you may want to indicate on all your invoices that a late payment penalty applies
- when your clients are outside your terms of trade, you need to chase them up as soon as possible without damaging your business relationship
- you should be clear about when you put your debt collection strategy into action:
 - **for business clients**, you may need to take account of their reporting cycles (e.g., monthly) before deciding when to chase up an outstanding debt
 - **for individual clients**, you may want to chase them up as soon as they are outside your terms of trade
- your debt collection strategies should cover such things as:
 - whether your first request for payment will be taken by telephone or email

Generally the cost of providing a Christmas party is income tax deductible only to the extent that it is subject to FBT.

In working out what you can claim as a tax deduction, you will need to watch out for the following types of expenditure:

- any costs that are exempt from FBT (e.g., the exempt minor benefits and in-house exempt property benefits noted above) cannot be claimed as an income tax deduction; and
- the costs of entertaining clients are not subject to FBT and are also not income tax deductible.

GST Issues

In many instances, entertainment expenses are not tax deductible. In addition, GST input tax credits may not be claimable for these expenses on your Business Activity Statement. So, beware that you are not over-claiming your input tax credits and contact us for advice if you have any concerns in this area.

- when to make follow up contact
- when you will resort to legal debt recovery assistance

- you can't get blood out of stone – if you know your client has no money, it may be better to consider negotiating a repayment schedule over a period of time

Can I get any tax relief for bad debts?

No one likes the idea of their clients and customers not paying their accounts, but unfortunately it happens.

If you have been unsuccessful in trying to collect money owed to your business, you may be entitled to some tax relief for bad debts.

In the first place, a debt is likely to be treated as bad for tax purposes if:

- you have made an effort to collect it
- there is little likelihood that you will ever be successful in collecting it
- you abandon any debt recovery action

If you are in this situation, you may be able to claim a tax deduction for the bad debt (or part thereof) where:

- you have previously brought the debt to account as assessable income
- you have written off the debt as bad during the income year in which you want to claim the deduction

TIP

The bad debt reduction rules can be tricky to apply. If you think your business is going to be in this situation before 30 June 2009, it's important to get advice now to ensure you can claim a deduction for your bad debts.

Minimise your exposure to bad debts

We would all like to stop bad debts happening in the first place, but even with the best forward planning that may not always be possible.

However, you can take steps to minimise your exposure to bad debts by checking on a client's or customer's credit status:

- you may want to consider checking first with credit reference agencies
- you can even do an informal check with other suppliers, to see if there are any potential problems with a client or customer.

(3) TREGLOANS WEBSITE

At long last, we have finally upgraded our website to provide a comprehensive overview of the services we provide at Tregloans and some history of the firm.

Please have a look at

www.tregloans.com.au

We welcome any comments you may have.

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**From the Partners and Staff at Tregloans, we wish everyone
a Merry Christmas and a happy, safe and prosperous New Year.**

