BWR Accountants & Advisers December 2010 Newsletter

Ho ho ho humbug: Avoid the Christmas tax scrooge

If you're planning your Christmas budget for your team and your clients there are a couple of things you need to know to keep the Christmas tax scrooge from ruining your Christmas celebrations. We take a look at what you can and can't deduct and what is and isn't likely to incur Fringe Benefits Tax (FBT).

Your team

The big issue with Christmas celebrations for your team is FBT. FBT applies to non-cash benefits provided by employers to their employees. This generally includes expenses for entertainment that you provide to your team (and their family).

If you provide the Christmas celebrations at your work on a working day, then they are likely to be exempt from FBT. If however family members of your team attend, then FBT may apply if the cost of the celebration is over $300 per person. If the cost of the celebration is less than this amount then no FBT applies as it is considered to be a minor benefit and minor benefits are exempt from FBT.

If you hold your celebrations at an external venue, then you need to ensure that the cost of the celebrations is less than $300 per person. So, if you invited 10 team members and 10 of their spouses to a Christmas lunch, your expenses might look like this:

Item	Cost per person	Total
Meal	$60	$1,200
Beverages	$40	$800
Entertainment	$33	$660
Total	**$133**	**$2,660**

For FBT purposes, the cost per employee is $133 so no FBT applies. If however the cost of the meal was $180 per person, the beverage package $90 per person and the entertainment $1,260 then the cost per employee would be $333 and the Christmas party celebrations would be subject to FBT for both the employee and the spouse

Christmas presents to staff members also need to be kept to less than $300 per person and need to be one-off gifts. They are not included in the calculation of the total cost of the Christmas party but are assessed separately (even if they are given out at the event).

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The partners and staff of BWR Accountants & Advisers wish you and your family a Merry Christmas and a safe and happy New Year.

We take this opportunity to thank you for your patronage throughout the year and look forward to serving you in 2011.

Our offices will close at 12.30 pm on Friday 24 December 2010 and will re-open Tuesday 4 January 2011.

The cost of your Christmas celebrations for team members is not deductible for income tax purposes if FBT does not apply. If FBT applies, then you can claim a tax deduction.

Entertaining clients at Christmas
Entertaining your clients at Christmas is not tax deductible. So, if you take them out to dinner, to the theatre, or any other form of entertainment, then it's not deductible. However, if your business gives a gift then it is deductible as long as the gift is given in the expectation that the business will benefit. To be deductible the gift needs to be an expense of the business incurred in the course of generating revenue. You need to be able to prove the link between the two.

Donations to charity
It's important to recognise that you can only claim a deduction for donations made to deductible gift recipients (DGRs). If you receive any form of merchandise - biscuits, teddies, balls or you buy something at an auction - then it's not deductible. This is simply because you purchased something rather than giving a gift. The same goes for charity balls and dinners. You cannot claim the cost of the dinner unless the organisers have arranged for part of the cost to be deductible and are able to provide you with a confirmation receipt.

Self Education Expenses: High Court Win for Taxpayer

The High Court has released it's decision in "Commissioner of Taxation v's Anstis" in relation to deducting self-education expenses against Youth Allowance Income. The Court held that the taxpayers self-education expenses were incurred in gaining her assessable Youth Allowance Income and were deductible even though the taxpayer was not employed in a relevant field while undertaking study.

The decision opens the door for many students to claim self-education expenses against their Youth Allowance payments as well as other forms of income support payments. This will be particularly relevant for students with part time jobs whose assessable income exceeds the tax free threshold.

Financial and Retirement Planning

Is your current financial situation working well for you, or can it be improved?

Do you have a wealth creation strategy or retirement plan?

Do you know how much you have in Superannuation? Will this be enough for you to retire on?

Through our affiliation with Morse Financial Services we are able to offer you access to their team of advisors.

Morse Financial Services has been providing expert advice since 1987 and now manage over $100 million in funds for their clients. That's a lot of trust.

Their dedicated team of advisors will help you understand the benefits that can be achieved with proper planning.

Morse Financial Services will give you access to a full range of investment and financial planning products. They can also design a personalised plan to enable you to meet both your current and long-term financial goals and objectives. If you're after peace of mind, call us today and we will arrange for you to talk to one of their qualified advisors.

About the cash economy

The cash economy occurs when businesses use cash transactions to hide income to avoid paying tax.
Participating in the cash economy is a deliberate attempt to under-report or omit income.
Cash economy activities include businesses:

- paying wages 'cash-in-hand'
- skimming some or all of the cash takings
- running a part of their normal business activities 'off-the-books'
- not reporting the value of goods and services provided in exchange for other goods and services
- operating underground – that is, avoiding their obligations by not registering or lodging returns.

The Australian Taxation Office uses a range of strategies to identify businesses that may not be correctly meeting their tax obligations. The methods for detecting these businesses are becoming increasingly sophisticated.

Their data matching program collects significant amounts of external information and compares this to reported business income to identify taxpayers who appear to be spending beyond their means and may be failing to report all their income.

The Australian Taxation Office have also published more than 100 small business benchmarks that are designed to help businesses to compare their performance against similar businesses in the industry and to provide them with guidance on what they would normally expect to see in their reporting.

The benchmarks are also used to identify businesses that may be avoiding their tax obligations by not reporting some or all of their income. These benchmarks include, but are not limited to:

Performance Benchmarks
Performance benchmarks contain several ratios to help you compare and check your own business performance. The ratios for a particular industry may include:

- cost of goods sold to turnover
- cost of materials to turnover
- labour to turnover
- rent to turnover
- motor vehicle expenses to turnover

Input Benchmarks
Input benchmarks show an expected range of income for trades people based on the labour and materials they use. Input benchmarks are developed using information provided to us by industry participants and trade associations.

Where the Australian Taxation Office identifies a business that operates outside of the benchmark for their industry, they are likely to be subject to audit or review. They may also use benchmarks during an audit to make default assessments. A default assessment is where the ATO calculate how much someone should pay when the business owner does not have proper records that fully explain and document their business activities.

If you receive a letter from the Australian Taxation Office concerning this or find you are outside the benchmarks for your industry, please contact our office for assistance. We are happy to help you work out if you have correctly recorded and reported income and deductions for your business as well as reviewing your record-keeping practices to ensure they meet the legal requirements.

David Palmer's Retirement

Cathy and Brett along with all the staff at BWR Accountants & Advisers would like to wish David all the best for his pending retirement. David has been with us for many years and will be retiring this Christmas to pursue a more leisurely lifestyle. With the extra time and the rain we have been having, David and Denny's garden should be looking a treat.

Contact us
Forbes Office
36 Templar Street
t: 02 6852 1855
f: 02 6852 4198

Parkes Office
136 Clarinda Street
t: 02 6862 1444
f: 02 6862 1990
We're on the web-
www.bwraccountants.com.au

We take pride in our service and have a team of highly trained individuals to ensure you receive the high level of service that you expect.

Our team would like to take this opportunity to thank you for choosing our firm to take care of your business and we are looking forward to your continued support.

Thinking of trading contracts for difference (CFDs)?

BEWARE: a warning from the Australian Securities & Investment Commission
The risks and complexity of CFDs mean that they are unlikely to meet the investment needs and objectives of most retail investors. If you trade CFDs, you are putting potentially very high amounts of your own money at stake.

What is a CFD?
A CFD is a leveraged 'derivative' financial product. CFDs are derivatives because their value is derived from the value of another asset (for example, a share, commodity or market index).

When you trade CFDs, you take a position on the change in value of the underlying asset over time. You are essentially betting on whether the value of an underlying asset is going to rise or fall in the future compared to what it was when the contract was taken out (or executed).

What is 'leverage'?
CFDs allow you to bet on rises and falls in shares, currency and other assets while only putting up a small amount of your own money. You are leveraging off the money you do have, in the hope of making more.

With CFDs, you only have to put in a fraction of the market value of the underlying asset when making a trade, sometimes as little as 1%. The remaining 99% of the value of the asset is covered by the CFD provider. Even though you only put up 1% of the value, you are entitled to the same gains or losses as if you had paid 100%. The actual percentage of the market value that you will be asked to put in will vary for different CFD providers, and for different underlying assets.

This can make CFDs seem very attractive. Even if you don't have the money to buy the underlying asset itself, you can share in potential gains and losses on the value of that asset.

But because you are trading with leverage, the gains and losses are magnified—and the risks are much greater. You can end up losing much more than you put in.

How is trading CFDs different to investing in shares?
Unlike investing in shares, when you trade CFDs, you are not buying or trading the underlying asset. What you are buying is a contract between yourself and the CFD provider.

Because all you own is a contract with the CFD provider, you are also taking a bet that the CFD provider is in a sound financial position and will be able to meet their obligations to you. Also, while the value of the CFD is derived from the value of the underlying asset, it may not track it exactly. These small differences can significantly affect any gains or losses you make.

How much can you afford to lose?
Here are some of the risks in trading CFDs:

• **Investment risk:** This is the risk that investment markets move against you.

• **Counterparty risk:** This is the risk that the CFD provider or another counterparty to a trade fails to fulfil their obligations to you. Trading CFDs exposes you not only to the risk of the CFD provider failing to act as promised, but you could also lose money if other companies the provider deals with, or other clients, fail to meet their obligations.

• **Client money risk:** This is the risk of losing some or all of your money held by the CFD provider.

• **Liquidity, gapping and execution risks:** Market conditions and the mechanics of trading might mean you cannot make trades when you would like to, or that your trades are not filled at the price you expect.