

## 5 steps to a tax free Christmas

**Tax is not the most exciting thing in the lead up to Christmas. But these are the questions we get asked all the time and, if you are familiar with the tricks and traps, you can save yourself and your business hundreds if not thousands of dollars.**

### 1. Spontaneous, well thought through team gifts

The key to Christmas presents for your team is to keep the gift spontaneous, ad hoc and, from a tax perspective, below \$300 per person. \$300 is the minor benefit threshold for Fringe Benefits Tax (FBT) so anything at or above this level will mean that your Christmas generosity will result in a gift to the Tax Office as well as at a rate of 47%.

To qualify as a minor benefit, the gifts also have to be ad hoc – not once a month gym membership payments nor giving one person multiple gift vouchers amounting to \$300 or more.

### 2. Work Christmas party options

If you really want to avoid tax on your work Christmas party then host it in the office on a work day. This way, FBT is unlikely to apply regardless of how much you spend per person. Also, taxi travel that starts or finishes at an employee's place of work is also exempt from FBT. So, if you have a few team members that need to be loaded into a taxi after over-indulging in Christmas cheer, the ride home is FBT exempt.

If your work Christmas party is out of the office, keep the cost of your celebrations below \$300 per person. This way, you won't pay FBT because anything below \$300 per person is a minor benefit and exempt. Be careful though as the \$300 includes all the costs of the event so meals, drinks, entertainment, etc.

If the party is not held on your business premises then the taxi travel is taken to be a separate benefit from the party itself and any Christmas gifts you have provided. In theory, this means that if the cost of each item per person is below \$300 then the gift, party and taxi travel can all be FBT free. However, the total cost of all benefits provided to the employees needs to be taken into account in determining whether the benefits are minor.

If your business hosts more extravagant parties and goes above the \$300 per person minor benefit limit, you will pay FBT but you can also claim a tax deduction for the cost of the event.

### 3. Give gifts rather than doing lunch

As long as the gift you give to your client is given for relationship building with the expectation that they will bestow your business with more work, then the gift is tax deductible.

Entertaining clients at Christmas is not tax deductible. So, if you take them out to a restaurant, show or to any other form of entertainment, then you can't claim it as a deductible business expense and you can't claim the GST credits either. It's goodwill to all but not much more.

### 4. Give a charity a cash donation

Charities love cash. They don't have to spend any of their precious resources to receive it – unlike a lot of charity dinners, auctions and promotional campaigns. And, from a tax perspective, it's the safest way to ensure that you or your business can claim a deduction for the full amount of the donation. Be aware that there are a few rules to giving to charities that make the difference between whether you will or won't receive a tax deduction.

### 5. Christmas bonuses

If you are planning to provide your team with cash bonuses rather than gift vouchers or other items of property then remember this will be taxed in much the same way as salary and wages. A PAYG withholding obligation will be triggered; the ATO's view is that the bonus will also be treated as ordinary time earnings, which means it will be subject to the superannuation guarantee provisions. Call Collins Hume on 02 6686 3000 to clarify any of these points as to how they apply to your own business.

## On superannuation, SMSFs, sugar and sliced bread

[Ian Wunsch](#) is what many in the profession would call an accounting veteran.

Not only is he a classically qualified accountant, but he has seen life from the other side of the fence – the tax office fence.

If you think Ian's insight into the 'dark side' was a dalliance with the devil, think again. What he brings to Collins Hume in terms of understanding and advice is over and above what any run of the mill accountant can offer.

Ian became a key part of 'Collins & Hume' in 1988 after wrapping up on ATO's Income Tax Audit team on Expo 88. A friend told him about an opening up with Messrs Collins and Hume; the promise of a fair maiden's hand waiting for him in Ballina sealed the deal.

"I always wanted to be a sugar cane farmer and an accountant," says Ian. "So we got married and I moved back to the Northern Rivers."

Whilst Ian returned with an ATO advantage, things were hotting up in the area of [self-managed superannuation](#).

"We had two clients with self-managed super funds ([SMSFs](#)) when I joined Collins Hume, and those were in wind down phase."

Ian believes the advent of the SMSF has had the biggest impact on his profession. Yet everything he knew about self-managed super back then was totally self-taught and, with the big institutions not doing a very good job, Ian felt it was an area worth getting into.

A friend referred a local business client to Ian and a short time later the subject of his SMSF came up, which was also in the process of winding down. The subject spurred Ian's interest and warranted further research. He was smart enough to catch one of those SMSF clients in time, which ignited his passion for self-managed superannuation.

"No-one else was offering advice or information about SMSFs at that time," says Ian. "My client was working with a consultant who was urging him to roll over his \$40,000 in the fund into another investment vehicle."



"We had the opportunity to work with the client and, today, his fund is worth \$3 million. My advice was 'get big or get out' which he did and subsequently brought his family into the fund."

Ian hasn't looked back. Today his advice is very much led from a SMSF perspective, with solid accounting and tax compliance to back it up.

"SMSFs are the best thing since sliced bread," says Ian. "But diversification is the name of the game. You need to diversify your assets in a SMSF, not just hold property or fixed interest. You've got to have growth assets to help build a capital base. Trustees do need to be prepared to put a reasonable amount of time into record keeping and monitoring the investments of the SMSF – like anything in life, put the time in and you'll reap the benefits." *(continued over/...)*

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**Ian is also a big advocate of gearing in SMSFs.**

"Back in the day we used to use unit trusts until they were outlawed in 1999. With borrowing now available through a Limited Recourse Borrowing Loan, conservative gearing as a strategy is on the table."

"There's also leverage in [topping up super](#) and making it work for you at any age – the younger the better. The power of compound interest and acquiring growth assets at a young age is underrated."

"Once you've got some good saving and investment habits, you can use it to buy property within super, for example."

**Albert Einstein said, "Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't... pays it."**

"One of the best gifts you can give a young person starting out or anyone looking to build wealth for their family is a book first published in 1926, but the principles espoused still hold true today – [The Richest Man in Babylon](#)."

"By consistently investing a reasonable percentage of your income and avoiding get rich quick schemes, financial success and security can be achieved by anyone. Security of capital should always be at the top of mind when considering any investment."

"But it's so easy to get the wrong advice. That's why [succession planning](#), [protecting assets](#) and getting the right structure – a flexible structure – is essential in making sure all your ducks are in order."

From farming families to business owners and even sporting professionals, Ian reckons there's nothing better than seeing clients' smiles when their problems are resolved and they're achieving what they want to achieve in work and in life.

Read more at [Ian Wunsch, B Comm, CPA](#).



## Seasons greetings from Collins Hume!

In appreciation of our association, all of us at Collins Hume join in wishing you a wonderful festive season and the very best of everything for the New Year.

At this time we are reminded of the importance of relationships in our lives and want to especially thank the following clients who so enthusiastically assisted us to write about the great work both they and we do throughout this past year in our series of case study articles:

- [Elizabeth Richardson](#)
- [Deanne and Chenoa Watson, Solid Kitchens 'n' Cabinets](#)
- [Graham Robson](#)
- [Brett Adamson, Woodrabbit Kitchens](#)
- [Bradley Heard, Chicken MANIA](#)
- [Craig Hopkins, Fridgy's Air](#)
- [Justine and Daniel Lucas, Lucas Management](#)
- [Graeme Digby and Liam Hogan, Fortitude Finance](#)
- [Jennie and David Freedman, Quadracon Building](#)

We look forward to connecting with all our clients again in 2015. Collins Hume's Ballina and Byron Bay offices will be closed from 5:30pm on Tuesday 23 December 2014 and will re-open at 7:30am on Monday 5 January 2015.

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# Is Santa a tax cheat?

## A lighter look at the complexity of Australian taxation laws.

Dear Santa,

Thank you for the opportunity to provide tax advice for your operation. We're pleased you have initiated this advice as the Australian Taxation Office (ATO) is looking closely at any business or individual that operates within Australia but has significant transactions or operations internationally.

The fact that you run a global business that generates no profit but 'gifts' millions of toys each year produced by your offshore factory, have never lodged a tax return or paid tax in Australia, is likely to trigger an investigation. We have identified a number of issues as a starting point for further discussions. These are:

### Tax resident or non-resident?

We note that you have a secret Australian warehouse to aid distribution and Christmas Eve logistics across the region. The warehouse domiciled in Australia may mean that you have a permanent establishment in Australia which could mean you are taxed like an Australian entity on profits made from the warehouse. As there is no Double Tax Agreement between Australia and the North Pole, it's possible you will be subject to local tax laws in both countries. You might be able to claim a tax credit to help reduce the impact of double taxation. We note that this same situation is likely to apply in many countries not just Australia.

Representation in a particular country may also be enough to make your operation subject to local tax laws. You appear to have local agents – several thousand Santa representatives – with authority to operate on your behalf in shopping centres across Australia. These agents commit the operation with the promise of toys to millions of children. A local agent acting with authority may expose you to local tax laws. This is an issue that may extend well beyond Australia. This issue requires immediate formal assessment.

### Santa's little helpers. Volunteers or underpaid employees?

A review should be completed of the employment status of the 'Santa's little helpers' based in Australia to determine if they are contractors or employees. If the helpers are deemed to be employees, you may be liable for the superannuation guarantee for this year (9.5% from 1 July 2014) and all previous years. It may be hard to argue that they are truly independent given the level of corporate branding



involved. If the helpers are indeed 'volunteers' we will need to consult an employment lawyer regarding potential slave labour issues and discrimination of a minority group.

### Importing goods into Australia

Most goods imported into Australia with a value above \$1,000 are subject to GST. With approximately 4,503,075 children in Australia on your list, averaging \$40 per gift (depending on whether they have been naughty or nice), we estimate that you will be liable for GST in excess of \$18,012,300. We need to discuss tax structuring urgently.

### Reindeers – beasts of burden?

If you are subject to Australian tax laws, a number of deductions may be available to you. Your flying reindeer for example are likely to be considered beasts of burden and, as such, can be depreciated as plant.

There are currently no provisions within Australian tax law to allow the Commissioner the discretion to ignore your tax liabilities as a goodwill gesture. [Please contact us](#) urgently regarding these issues. Thank you.

## Government grants for small and medium business

### Accelerating Commercialisation

The Australian government has introduced the long-awaited replacement to the Commercialisation Australia program, with the release of the details of the Accelerating Commercialisation Grant.

Accelerating Commercialisation is the final component of the Entrepreneurs' Infrastructure Program, which also includes:

- Business Evaluation
- Business Growth Grant
- Research Connection

Accelerating Commercialisation assist entrepreneurs, researchers, inventors, start-ups and small/medium enterprises to address challenges associated with commercialising novel intellectual property, in the form of new products, processes and/or services.

Eligible applicants include non-tax exempt company, an individual, researcher, partnership or unincorporated trustee, who agrees to form a non-tax exempt eligible corporation before signing a funding agreement. The combined annual turnover of the applicant and of each related body corporate (if any), for each of the three years prior to lodgement of the application, is less than \$20million. The applicant has to have a novel product, process or service that they wish to commercialise and trade to customers, external to the state or territory of their place of business. The applicant has to have ownership, access to or the beneficial use of any intellectual property that is the subject of or is necessary to carry out the eligible project.

#### Funding of up to \$1million is available on a 50% contribution basis.

Eligible project aims to achieve at least one of the following:

- Complete development of a novel product, process or service.
- Proven commercial viability of a novel product, process or service to a customer, investor or strategic partner.
- First sale made of the novel product, process or service in Australia or overseas.
- Business is driven towards commercialisation of its novel product, process or service in the marketplace, by engaging an experienced executive.



If you're interested in submitting an expression of interest for Accelerating Commercialisation, complete the EIP Accelerating Commercialisation Expression of Interest form online at [www.business.gov.au](http://www.business.gov.au) or call Collins Hume on 02 6686 3000.

### Export Market Development Grant - reminder

If you are an exporter or proposing to export, Export Market Development Grant applications for the year ended 30 June 2014 have to be lodged by Monday 1 December 2014 at 5pm.

If you require any assistance on the preparation of the grant application, please contact us on 02 6686 3000

Or [click here](#) to read about how Collins Hume helps businesses to tap into the growth that government grant funding can provide.