

# END OF YEAR UPDATE

The end of year guide for you and your business

## Year-round PLANNING for businesses

For business owners, the end of the year signifies a time in which to evaluate your business's operations and prepare for the coming year.

Each business endeavour should be marked by a business plan and often such plans come into fruition alongside our personal new year's resolutions. Planning ahead allows you to set out goals best suited for your business.

In order to plan ahead though, we must reflect upon the events which brought us to this point and evaluate them against possible future circumstances.

This is a time to take advantage of the freedom to plan and evaluate your business without the tax deadlines and pressures felt towards the end of the financial year.



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 closing dates are 23/12/2010 to 4/1/2011.

## Deadline for investment tax

Under last year's tax break deadline, businesses have until 31 December 2010 to take advantage of the additional tax deductions for eligible depreciating assets. Have you assured that you are taking the measures to meet this deadline?

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 have been purchased between 13 December 2008 and 31 December 2009, and first used or installed by 31 December 2010.

In order to be able to take advantage of this tax deduction businesses need to ensure that effective installation has occurred. If you are uncertain in relation to this matter please contact our office without delay.



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## Marketing during the holidays

With busy Christmas shoppers scrambling through crowds and arguing over parking spaces, now is the time to differentiate yourself from your competitors and reconnect with your customers.

Of course, Christmas time is also when businesses are fronted with big expenses such as bonuses, parties and staff wages. However, your business's future should not be neglected.

Market your business by extending your brand and solidifying your customer relationships and referral sources.

Here are a few inexpensive ways to do holiday marketing:

- **Holiday cards:** are not only inexpensive but also show your continuing respect and value towards your clients, customers, patients, referral sources and key suppliers. Emailing instead of traditional mail is a perfectly appropriate substitute which is guaranteed to reach the customer and deliver the same result.
- **Gifts for clients:** this small expression of gratitude will communicate the value you place on your client relationships. Ensure the gifts are in line with your business. For example, if you owned a hairdressing salon, you may choose to reward your loyal clients with free treatments or discounts.
- **Christmas business events:** are a good opportunity to celebrate your business, your staff and your customers. Of course there



must be an associated budget to which you adhere, however events like hosting a picnic for families can be done on a small budget. Such events will pay themselves off in the long run with customer and staff loyalty.

It's about being creative and standing apart from your competitors. Keep your business goals in mind when choosing the appropriate marketing channels and choose something that will best reflect and boost your brand.

## Tax and Christmas party expenses

Christmas parties are a great way to bring your staff together, boost their morale and propel them into a successful new year. This is when creativity and party planning skills come to fruition. However business owners must not neglect the tax implications of these punch-filled parties.

The income tax laws on the provision of fringe benefits to employees, their associates and clients are very complex and there is no separate fringe benefit tax (FBT) category for Christmas Parties. For this reason, you may encounter many different circumstances when providing these events to your staff.

Christmas parties constitute 'entertainment benefits' which are subject to fringe benefits tax, however there are two main conditions within which FBT is affected.



### 1. Christmas parties held on the business premises

Those parties that are held on a working day on a business premises and consumed by current employees only, are exempt from FBT.

However, a taxable fringe benefit will occur if an associate of an employee attends the party, unless exempt under the minor benefits exemption.

### 2. Christmas parties held off the premises

The costs associated with Christmas parties held off a business premises (for example a restaurant) will generate a taxable fringe benefit for employees and their associates unless the benefits are exempt minor benefits.

Exempt minor benefits are those benefits that are provided to an employee or an associate on an infrequent basis. The cost of these benefits to an associate must be less than \$300. Furthermore, the provision of a Christmas party may be a minor benefit and exempt if the cost of the party is also less than \$300 per employee.

In addition, there are circumstances in which gifts provided to employees are also an exempt benefit where the value of the gift is less than \$300.

Christmas time is a great time for businesses to boost the morale of their employees whilst also enhancing their relationships with their clients. Nonetheless, there are associated tax compliance issues that cannot be ignored. Before planning the party, it is best to speak to your accountant and assess the ways in which the party can be tax-friendly.

## Government acts against business tax debts

The Australian Tax Office is increasing its efforts to collect tax debts, which grew more than 10 per cent a year during the global financial crisis.

This measure will focus on small business owners and as more director penalty notices are issued, business directors will be made personally liable for company tax debt.

These penalty notices are an effort to reaffirm the importance of tax compliance and mandate non-compliant cases to rectify their debts.

Changes to the law made effective in July, have made it easier for the ATO to take action against company directors for outstanding debts.

Under these laws, company directors can no longer appease their obligations by entering into a company agreement with the ATO. Instead, there are only three options on receiving a director penalty notice:

- pay the debt
- appoint an administrator
- liquidate the company

Small businesses have been targeted as accounting for some 60 per cent of the \$12.2 billion outstanding debt prompting the ATO's firm action.

The ATO warns that continual deferment of debt payments will not be treated with the leniency granted during the financial crisis.



## ATO tracking loans made through trusts

The Australian Taxation Office is targeting members of self-managed super funds and their distribution of funds to themselves or others via investments by the super fund in trusts.

The ATO warns that members could stand to break tax regulations by distributing funds via this method. In this way, members should ensure that they are not unnecessarily breaking tax laws and risking fines and penalties.

Members identified are those who set up a trust which purports to offer a fixed rate interest that offers investments into allegedly unrelated entities.

The SMSF then invests in the trust and the organiser sources borrowers for the trust. In this instance, the borrowers can often include the same members of the SMSF that invested in the trust.

Here, these borrowers stand to gain money without having to pay interest to banks or other lending agencies. By entering into a loan agreement with the trust, the borrowers (or members of the trust) can have access to better deals than otherwise available.

Some of the benefits inherent in these loans could include a range of interest rates, a range of interest payment terms, including flexibility in the payment dates, and security of the loan in the form of a mortgage or personal guarantee.

According to the ATO, these borrowed funds could be used for multiple reasons. These range from business, personal or investment use. Nonetheless, such loans challenge the nature of SMSF legislation.

Of the reported contraventions noted by the ATO, 22% are found around loans and financial assistance.

Use of SMSF for loans contradicts the nature of the fund as well as the goal of associated sole-purpose test.

The objective of the sole-purpose test is to ensure that a SMSF is maintained for the purpose of providing benefits to a member upon their retirement, or their dependents in the case of the member's death before retirement.

The ATO stresses that in engaging in these loans, trustees and SMSF members breach a range of laws, including legally accessing super benefits, if they do not pay back the loan from the trust. The investment in the trust could also be relegated as an in-house asset, and in turn be subjected to certain limits.

Furthermore, income derived from the SMSF could be classified as 'non-arm's length income' and be subject to a higher rate of tax.

Although penalties can apply to SMSF members who make misleading statements or avoid tax, the ATO has allowed for reductions of the base penalty if the taxpayer makes a voluntary disclosure to the Tax Office.





## Surviving the holidays

With supermarket shelves slowly filling with Christmas products, it will only be a matter of time before the carols start playing and the shoppers start racing.

For anyone who runs a business, the holiday season is always a stressful one, presenting unique challenges and positive opportunities.

Here are a few tips to successfully surpass the holiday season.

1. **Watch your cash flow:** both businesses and individuals will report that the holidays create new dynamics for cash flow. If this is a time in which your business experiences high-income, then it is best to put that money into a reserve account. On the other hand, some businesses (and individuals) may need to reduce expenses as much as possible due to low income. Having money waiting in a reserve account for when times get tough is always a prudent measure.
2. **Holiday gifts:** a must-not-ignore holiday constituent that can sometimes prompt shoppers to ignore their budget. Whilst keeping cost in mind, business gifts to major customers, referral sources, strategic planners and employees show an appreciation of their input to a company's success.
3. **Holiday specials:** businesses can create gift packages that bundle a number of products or services together. These increase total sales amounts and provide customers with excellent value
4. **Gift certificates and gift cards:** are a must have option for businesses that are aware of consumer demands. Consumers love the efficiency and simplicity of gift certificates no matter what your line of business may be.
5. **Functions:** during the holiday season functions are a way of networking and marketing. In hosting a function you have the opportunity to build potential client relationships and essentially extend your brand identity. Attending functions is a great opportunity to gain insight into other markets or even your own.

Holiday time is essentially a time to stop, evaluate and enjoy the opportunities it brings for you and your family.

## 7 steps to a successful year end

1. **Review cashflow:**  
Keep a check on your income and spending. Christmas bonuses and low or high productivity can all have an impact on cashflow
2. **Enhance client relationships:**  
Use the holiday period to organise your client base. It costs 5 times more to gain a new client than it does to retain an old one.
3. **Keep staff motivated:**  
Give your staff clear targets they must work towards before the holidays start. Bonuses, like Christmas parties, are another measure to boost staff morale and productivity.
4. **Staff leave:**  
Find an open and fair way of designating holidays to your staff members.
5. **Data protection:**  
With most people on holidays, theft is a major issue around the Christmas period. Ensure that you have installed all the appropriate measures to avoid being burgled.
6. **Business evaluation:**  
As businesses compete for holiday shoppers, now is a good time to assess your position in the market and start preparing for next year. Draw upon your strengths and remedy your weaknesses.
7. **Keep marketing**  
Despite the likelihood of your customers being on holidays, your marketing strategies should remain on track. Now is also a good time to strategise for when the busy period once again commences.

### 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.

