

Don't Let the Tax Office Crash your Christmas Party!

With Christmas upon us employers may be considering what type of rewards to provide to employees for their efforts during the year. Given the complexity of the Fringe Benefit Tax (FBT) rules the question of the most tax effective way of giving also arises. It is important to be aware that there are different income tax and FBT consequences based on the nature of the Christmas cheer, such as whether it is provided on the employers premises or at a restaurant, hotel or other facility, who attends (employees only or employees and spouses), other benefits provided by the employer and the cost per person.



CHRISTMAS GIFTS

"Minor" benefits are exempt from FBT if provided infrequently and irregularly **and the value is less than \$100**

The tax deductibility of the expense will be lost where the consumption of the benefit can occur almost immediately, e.g. theatre tickets, sporting equipment hire, etc

Example 1 An employee and his family are given a Christmas hamper to the value of \$90.00, the hamper is not considered to be the provision of entertainment, the cost is both tax deductible and exempt from FBT.

Example 2 An employer gives a gift, which consists of a hamper worth \$80 and a \$50 gift voucher for the family. The total value of the gift is \$100 or more and so the minor benefit exemption does not apply. Both gifts are subject to FBT, and will be tax deductible.

Inside this issue:

Superannuation Guarantee Contributions	2
Interest Rates—To fix or not to fix?	2
Workflow Management	2
Repairs & Rental Properties!	3
Capital Gains Tax Explained	3
BAS & GST Correspondence	3
Merry Christmas!	3

Motor Vehicle Registration & CTP Insurance

Did you know that you can now claim an input tax credit for CTP insurance cover commencing **on or after 1 July 2003**.

What about tax invoices

CTP insurers are required to issue a tax invoice. Check the renewal notice as some CTP insurers have worded them so they become a tax invoice upon payment. If not, the CTP insurer is required to issue a tax invoice within 28 days of being requested to do so.

Businesses will need a tax invoice to claim their input tax credit.



Changes to Superannuation Guarantee now in place

Changes to the superannuation guarantee were introduced on July 1 2003, requiring employers to pay sufficient superannuation every quarter.

- Calculate 9% of the earnings base for each eligible employee.
- Pay this to a complying super fund by the due date each quarter. **You cannot claim tax deductions for payments made after the due date.**
- Provide written report to each employee each quarter, including amount contributed, name of fund and membership number.
- Keep records of all correspondence issued.

Quarter Dates	Due date for super contributions to be made	Due date for payment of super guarantee charge and statement if
1 July—30 September	28 October	14 November
1 October—31 December	28 January	14 February
1 January—31 March	28 April	14 May
1 April—30 June	28 July	14 August

It May be time to fix the interest rate on your loans!

Minimising interest costs is just as important as maximising the return on your investments or business and even one percentage point can make a significant difference to the net performance. For example, if you have geared a \$100,000 share portfolio, and it is grossing 10% pa including capital gains, then an interest rate of 7% means you have earned \$3,000 net, and an interest rate of 8% means you have earned \$2,000 net. The difference between \$2,000 and \$3,000 is \$1,000, or 50%. Over a ten year period this has a big difference in the overall performance of the portfolio.

The last 12 months have seen remarkably low interest rates and now the Reserve Bank has taken steps to restrain what some have thought to be an overheating economy, particularly in the building sector, by raising official rates. Home loan rates are now between 6.5% and 8%.

For this reason now may be a good time for you to consider fixed or variable interest rates. be fixed for three or even five years. The security of knowing you are insulated from any increases later on means this is probably the best strategy right now.

Before selecting your interest rate plan, make sure you consider:

- How much higher is the fixed rate compared to the variable rate, i.e. "the premium to fix".
- The term of your loan and if any redraws will be needed in the near future.
- Your ability to cope with increased costs if rates rise.
- Your investment expectations and capabilities.



Talk to your bank before making a decision!



WORKFLOW MANAGEMENT

To help ensure that your needs are met as quickly and efficiently as possible, we will be trialling our new workflow management policies for a limited number of clients during January and February.

Please contact us if you would like more information on the proposed changes and to register your interest in participating.

Repairs to Recently Purchased Rental Properties

The ATO has announced a crack down on repairs to recently acquired rental properties.

Expenditure incurred in remedying damage or deterioration of a property that exists at the date of acquisition is considered to be an initial repair. The cost of an initial repair is still not deductible even if some income is earned after acquisition but before the repair expenditure is incurred.

Initial repairs are considered to be **capital** and are therefore **not** deductible. A taxpayer may be able to claim capital works deductions (special building write off) for these expenses.

Expenses of a capital nature may also form part of the cost base of the property for capital gains tax purposes.

Taxation ruling TR 97/23 provides guidance on when expenditure incurred on repairs is deductible, and the treatment of initial repairs.



What is Capital Gains Tax and what rate of tax do you pay?

Capital Gains Tax (CGT) is the tax you pay on any capital gain you make and include on your annual income tax return. There is no separate tax on capital gains, it is merely a component of your income tax. You are taxed on your net capital gain at your marginal tax rate.

To work out whether you have to pay tax on your capital gain, you need to know:

- Whether a CGT event has happened
- The time of the CGT event
- How to calculate the capital gain or capital loss
- Whether there is any **exemption** or **roll-over** that allows you to reduce or disregard the capital gain or capital loss, see below.
- Whether you are entitled to any of the CGT concessions for small business.

Specific exemption—main residence

You can ignore a capital gain or capital loss you make from a CGT event relating to **dwelling** that was your main residence.

Specific exemption—small business concessions

There are a range of concessions that allow you to disregard, in whole or in part, a capital gain from an active asset that you use in your small business. These may include,

- the 50% active asset reduction
- roll-over relief
- retirement exemption.

We have a number of excellent ATO publications concerning capital gains tax available. Please contact us if you would like a copy or you would like to discuss how CGT may affect you.

BAS & GST Correspondence

To help reduce the BAS headaches we have arranged for all GST correspondence and Business Activity Statements to be forwarded directly to your address.

This will commence in January 2004.



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Finally, we wish you a fantastic Christmas and a healthy and wealthy 2004.

Just a reminder that the office will be closed from 3.00pm 19th December until 9.00am 5th January so we can recharge our batteries to be ready to tackle 2004!

