Client Newsletter

December 2024

OUR SERVICES

SWON provides a comprehensive range of business advice and accounting services, with specialists in the areas of taxation, business services, audit and assurance services and financial planning. Our long history of commitment to service excellence and client satisfaction has contributed to our current leadership status. We can optimise your company's profitability through:

- budgeting and planning
- business and ownership structures
- trusts, asset protection and estate planning
- family business advice
- superannuation advice
- retirement planning
- access to accounting professionals
- bookkeeping services

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MERRY CHRISTMAS

On behalf of all the team we wish you a safe and happy Christmas and look forward to working with you again in 2025.

Our office will close at 11:00am Friday 20th December and will re-open Wednesday 8th January 2025.

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What makes or breaks Christmas?

The cost of living has eased over the past year, but consumers are still under pressure. For business, planning is the key to managing Christmas volatility.

The countdown to Christmas is on and we're in the midst of a headlong rush to maximise any remaining opportunities before the Christmas lull. Busy period or not, Christmas causes a period of dislocation and volatility for most businesses. The result is that it is not 'business as usual' and for many, volatility can create problems.

Added to this dislocation are cost of living pressures impacting consumers. Employee households are the hardest hit experiencing mortgage cost fuelled increases – spiked by the rollover of fixed rate loans to higher variable rate loans. While there has been some relief from energy subsidies and a reduction in fuel prices, underlying inflation remains persistently above the RBA's target rate. Services inflation - the cost of your rent, insurance, your hairdresser, etc. – is sitting at around 5%. With the Reserve Bank of Australia (RBA) Board keeping rates on hold for now and hinting that it will be some time yet before they are comfortable reducing rates, consumers want a reason to spend based on value for money. The irony is that if we all spend up big, which a recent Roy Morgan poll suggests we are, there is a risk this elevated spending will further delay rate cuts. But, while we might spend more, some of this increase is simply to compensate for inflation - we need to spend more to buy at the same level as previous years.

The discounting trend

Consumers expect a bargain and can generally find one. If you choose to discount stock (or the market forces you to), it's essential to know your profit margins to determine what you can afford to give away. A business with a 20% gross profit margin that offers a 15% discount, needs a 300% increase in sales volume simply to maintain the same position. Worst case scenario is that a business trades below its breakeven point and generates losses.

Increased sales from discounting can be great if you know your numbers, have excess or older stock that needs to be moved, generates demand, or drives new customers to you.

Also think about how you create value; it does not always have to be a direct discount on a product. Packaging might be a better option than a straight discount where you can increase sales of multiple items, even better if you can combine higher demand with lower demand stock. Quantity discounts, value added are also options.

The Christmas cost hangover

Costs tend to go up over Christmas. More staff, lower efficiency, downtime from non-trading days, increased promotional costs, all mean that the cost of doing business increases. It's great to get into the Christmas spirit as long as you don't end up with a New Year hangover. Cost control is important.

Many businesses also bring in casual staff. It's essential that you pay staff at the correct rates and meet your Superannuation Guarantee obligations.

Check the pay calculator to make sure you have it right.

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New Year cashflow crunch

The New Year often leads into a quieter trading and tighter cashflow period. The March quarter is often the toughest cashflow quarter of the year. You will need a cash buffer. Don't over commit yourself in the run up to the end of the year and start the new Year with a problem.

Take a lesson from Scrooge

If you work with account customers, start your debtor follow up early. If your customers are under cashflow pressure, the Christmas period will only exacerbate it. The creditors that chase debt hard and early will get paid first. Don't be the last supplier on the list; the bucket might be empty by then.

Christmas is a great time of year. Just don't get caught up in the rush and forget about the basics.

Trading stock headaches

If business activity spikes over the Christmas period and you sell goods, then there is a temptation to increase stock levels. That makes sense as long as you don't go too far. Too much stock post the Christmas period and you will either be carrying product that is out of season, or you will have too much cash tied up in trading stock. Try to work with suppliers that can supply on short notice.

Managing your trading stock is not just about managing cost. If your customers are in your store but can't find what they need, have an online option available in store to take the sale.

How to be nice (not naughty) at Christmas with tax

It's Christmas. So much to do.

There is the office Christmas party to organise. There are gifts to buy for all the team. There are hampers and other Christmas gifts to give to key clients and suppliers. But wait! My accountant says that some of this might not be tax deductible. Some of it might attract Fringe Benefits Tax ('FBT').

Here are the basics of Christmas and tax.

Let's start with what can be the biggest expenditure – the staff Christmas party. You want it to be a memorable occasion and not let skimping on everything destroy the fun – but there are limits if you want the best tax outcome.

The starting point in the analysis is, generally, the provision of entertainment by way of food, drink or recreation is not a deductible expense under Australian tax law. However, if the entertainment is an employee benefit, this is deductible, but only if it is a 'fringe benefit' as defined.

Here's where this gets a bit complex. We must now turn to the FBT law.

Under the FBT law, anything provided to an employee, or their associate is a 'benefit'. So, a Christmas party is a benefit. However, there is a section in the FBT law that makes an employee benefit exempt from FBT if its value is less than $300 and it is provided (broadly) on an infrequent and irregular basis. The ATO generally considers that Christmas parties where the value per head is less than $300 are covered by the FBT exemption.

But, if the FBT exemption applies, the provision of the benefit is no longer a 'fringe benefit' as defined. This means that the general rule where a fringe benefit is deductible to an employer does not apply. Accordingly, a Christmas party that is held off-premises is not tax deductible. If the value per head of the Christmas party is less than $300, there will be no FBT payable.

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There are other rules in the FBT law that allow you to have your meal entertainment 50% subject to FBT and claim a 50% deduction. Further there is another provision that permits you to keep a logbook to work out the percentage subject to FBT. These rules are not discussed here.

Where there is a Christmas gathering on work premises, this can be deductible and not subject to FBT. Nevertheless, there are a number of conditions that apply to this. The issues include whether entertainment is being provided, whether there is an 'in-house dining facility', whether the gathering is being held on a working day and whether the gathering is a party or social function. The extent of non-employees attending the function is also relevant.

Turning to Christmas gifts, gifts to employees will nearly always be deductible provided it can be said the cost of the gift is incurred in deriving the employer's income. Employee benefits will normally fall into this category.

Such gifts can be subject to FBT if they have a value of $300 or more. If the value is less than $300, they will be exempt from FBT provided it can be said that the provision of the gift, broadly, is minor or infrequent. A Christmas gift under the value of $300 will normally be considered FBT exempt by the ATO. It should also be noted that the ATO does not think you need to add the value of the Christmas party to the value of the Christmas gift in determining whether the value is $300 or more. The ATO has ruled that each benefit needs to be considered separately when considering the $300 FBT exemption rule.

Considering Christmas gifts to clients and other business associates, these would normally be tax deductible provided they do not constitute the provision of entertainment. Food and drink given as a gift would not normally be considered as the provision of entertainment. Rather it is the provision of property.

If a gift to a client or an employee is highly valuable or extravagant, this will not necessarily cause the gift not to be tax deductible. However, the extravagance of the gift may raise the issue of whether there is more than one purpose in making the gift. That is, is there another purpose other than deriving the assessable income of the business making the gift? If the ATO concludes that there is another purpose, it may apportion the deductibility of the cost of the gift between the purpose of deriving assessable income and other purposes.

Gifts can become the provision of entertainment when they are such things as movie, sporting or concert tickets.

The Christmas tax quick guide

Here's our quick guide to the tax impact of Christmas celebrations. The information is for GST registered businesses that are not using the 50-50 split method for meal entertainment. Employers should keep detailed records of any entertainment-related benefits, so they can determine whether exemptions apply and calculate their taxable value. Employers also need to remember that when entertainment is provided to employees it won't normally be possible to claim a deduction or GST credits for the expenses unless they are subject to FBT.

	Exempt from FBT?	Tax deductible	GST credits
Christmas party on employer premises on a weekday			
Employees	Yes	No	No
Associates of employee (spouses etc.)	If <$300 per head	If $300 or more per head	If $300 or more per head
Customers	N/A	No	No
Christmas party (employer premises on a weekend or external venue)			
Employees	If <$300 per head	If $300 or more per head	If $300 or more per head
Associates (spouses etc.)	If <$300 per head	If $300 or more per head	If $300 or more per head
Customers	N/A	No	No
Christmas gifts (assuming the gift doesn't involve entertainment)			
Employees	If <$300 per head	Yes	Yes
Associates (spouses etc.)	If <$300 per head	Yes	Yes
Customers	N/A	Yes	Yes
Christmas lunch with customer at external venue			
Employees	If <$300 per head	If $300 or more per head	If $300 or more per head
Associates (spouses etc.)	If <$300 per head	If $300 or more per head	If $300 or more per head
Customers	N/A	No	No

Directors convicted for failing to have a Director ID

Two Western Australian directors were recently convicted for failing to have a director ID.

Both directors were fined $5,000 in the Perth Magistrates Court on 3 May 2024, for failing to comply with director identification requirements. The maximum penalty for failure to comply is currently a fine of $18,780.

The Magistrate stated the director ID service had been enacted for a proper public purpose and considerable efforts had been made by government agencies to bring the accused's attention to the service and comply.

How to obtain a Director ID?

If you are a company director without a director ID, to avoid potential penalties, please apply for one via ABR website https://www.abrs.gov.au/director-identification-number/apply-director-identification-number.

If you have queries, please contact ABRS on 13 62 50 or via website Contact us | Australian Business Registry Services (ABRS)

ATO issues 8,710 Director penalty notices for unpaid super

During the 2023/24 financial year, the ATO processed 23,600 super guarantee cases. This resulted in $659 million in super guarantee charge liabilities, before interest.

The number of director penalty notices (DPNs) issued for unpaid super has more than doubled from the 2022/23 financial year with 8,710 director penalty notices (DPNs) issued by the ATO in 2023/24.

A warning was issued by the ATO in October, warning that for businesses that don't make any effort to engage with them or set up payment plans for unpaid GST, pay-as-you-go (PAYG) withholding or employee super, it would be moving more quickly to firmer actions such as director penalty notices (DPNs) and garnishee notices.

'Payday' super from 1 July 2026

The Government intends to introduce laws that will require employers to pay superannuation guarantee (SG) at the same, or similar time, as they pay employee salary and wages.

The logic is that by increasing the frequency of SG contributions, employees will be around 1.5% better off by retirement, and there will be less opportunity for an SG liability to build up where the employer misses a deadline.

Originally announced in the 2023-24 Federal Budget, Treasury has released a consultation paper to start the process of making payday super a reality. Subject to the passage of the legislation, the reforms are scheduled to take effect from 1 July 2026.

On 18 September 2024, the government announced further details on payday super:

- Contributions to be received by the employee's superannuation fund within seven days following 'payday.' A 'payday' captures every payment to an employee with an OTE component.
- The Super Guarantee Charge where employers fail to pay contributions in full and on time will also be updated with interest accruing on late payments from 'payday'.
- The ATO small business clearing house will be decommissioned on 1 July 2026.

SWON will be on hand to help clients through transition to payday super.

Vacant residential Land Tax

If you have a vacant residential property with a dwelling or dwelling under construction, you may be subject to vacant residential Land Tax (VRLT) if it is left vacant for more than 6 months in the preceding calendar year.

The rates are as follows:

- 1% of the capital improved value of the land for the first year the land is liable for VRLT where the land was not liable for VRLT in the preceding tax year.
- 2% of the capital improved value of the land where the land is liable for VRLT for a second consecutive year.
- 3% of the capital improved value of the land where the land is liable for VRLT for a third consecutive year.

The State Revenue Office (SRO) needs to be notified by 15 January if you own residential land and it is vacant for more than 6 months in the preceding calendar year. This is done via lodgement of VRLT notification on the SRO website. Any exemptions (see below) can be included in this form. Make a vacant residential land tax notification | State Revenue Office

From 1 January 2025, the following will change:

- VRLT will apply to residential land left vacant for more than 6 months in the preceding calendar year across all of Victoria where prior to this date it only applies to Metropolitan Melbourne.
- Holiday home exemption - the usage and occupancy requirement will be extended to include a relative of the owner or vested beneficiary. To qualify for this exemption, the holiday home needs to have been occupied for at least 4 weeks during the year by either the owner, their relatives or a vested beneficiary.
- New residential premises exemption - to be extended to allow an exemption period of up to 3 years, where the owner has made genuine and reasonable efforts to sell the property. If it remains vacant and unsold after 3 years, VRLT of 1% will apply until it's sold.

Even if you believe your property is exempt, you still need to notify the SRO by the deadline and apply for an exemption via the online notification portal. If you're unsure if VRLT applies to you, please contact us to discuss as we are here to help.

FBT on plug-in hybrid electric vehicles

Changes to FBT exemptions to plug-in hybrid electric vehicles (PHEVs) are coming in the new FBT year.

From 1 April 2025, the electric cars exemption will no longer apply to a plug-in hybrid electric vehicle as these vehicles will cease to be regarded a zero or low emissions vehicle under FBT law. The exemption may still be applied on or after 1 April 2025 in limited circumstances, if certain requirements are met.

The exemption can continue to be applied if both of the following requirements are met:

- The exemption applied to the vehicle before 1 April 2025, and
- There is a financially binding commitment to continue providing private use of the vehicle from 1 April 2025 (but any optional extension of the agreement is not considered binding).

Where use of the vehicle was exempt before 1 April 2025, eligibility for the exemption ceases if any of the following changes happen:

- Optional extensions to the agreement.
- Breaks in novation agreements.
- Changes to the financial obligations under the lease.
- Changed employer for FBT purposes.

There is no FBT exemption available to employers from 1 April 2025 if there is no binding financial commitment, to provide the vehicle to a particular employee, in place prior to this date. For example, entering into a novated lease for a new plug-in hybrid on or after 1 April 2025.

Australian Government Phasing Out Cheques

Treasurer Jim Chalmers and Assistant Treasurer Stephen Jones announced cheques would cease being issued by 30 June 2028 and cease being accepted on 30 September 2029.

To help with the transition to digital payments, we are required to include your bank details on all your lodgements. Omitting bank details could result in refunds being issued by cheque and could cause complication for future transactions on your account.

If you have not provided your bank details to us, please provide these when you send us your tax information for your next tax return. Please also check bank details included on any lodgement declaration to ensure they are correct. We will continue to confirm bank details with you prior to any lodgement.

School Saving Bonus

The School Saving Bonus is a one-off $400 payment to help Victorian families cover the costs of school uniforms, textbooks, excursions and activities.

The School Saving Bonus is available for parents and carers of each Victorian government school student from Prep to Year 12 in 2025, (excludes TAFE students, full-fee international students and home-schooled students). Some of the uses for the bonus are as follows:

- Camps, trips, excursions and incursions.
- Swimming and sports programs.
- Outdoor education programs.
- Graduations.
- School uniforms.
- Textbooks.

For non-government schools, the $400 School Saving Bonus will be paid to the school for eligible students. Talk to your school about how this cost of living support will apply to you.

2024-25 ATO focus areas

The ATO has released its key areas of focus for privately owned and wealthy groups for the 2024-25 income year. The list is separated into foundational issues, emerging and evolving risks, and targeted focus areas.

Foundational issues include:

- Registration, lodgement and payment.
- Incorrect reporting.
- Tax advisers and professional firms – failure to lodge / pay personal returns, allocation of professional firm profits.
- Division 7A.
- CGT.
- Property and construction.
- International transactions.

Emerging or evolving risks and issues include:

- Incorrect reporting – trust deductions, R&D claims, GST credits on employee allowances.
- CGT – Division 149 and pre-CGT assets.
- Other emerging areas - trust loss trafficking, inappropriate use of private ancillary funds, share buybacks, thin capitalisation rules, cryptocurrency based business models.

The target focus areas include:

- Succession planning.
- Private equity.
- Retirement villages.
- GST for the retail and construction industries.

Improving retirement phase of superannuation

Treasury has released a fact sheet outlining the Government's plans to reform the retirement phase of superannuation.

The Government hopes that the reforms will improve the retirement phase of superannuation and help retirees make the most of their superannuation through trusted information, better products and greater transparency.

The reforms focus on four main areas:

- Enhanced Independent Guidance - The Government will update the MoneySmart website to provide retirees with easy access to reliable, independent information on superannuation and retirement options. ASIC will also lead a consumer education campaign, with new resources expected in 2025.
- Better Retirement Products - Reforms to income stream regulations will encourage the development of better retirement products, offering more choices for retirees. These changes, starting 1 July 2026, will allow
- funds to offer product features like money-back guarantees and instalment payments instead of lump sum payments.
- Best Practice Principles - New voluntary best practice principles will guide the superannuation industry in creating high-quality retirement products. Draft principles will be consulted on in 2025.
- Increased Transparency - A new Retirement Reporting Framework, starting in 2027, will provide greater transparency on retirement outcomes. APRA will collect and publish data annually to track progress and measure success, with the framework's design informed by Treasury-led consultations starting next year.

You can view the fact sheet here [Improving the retirement phase of superannuation]

Are student loans too big?

For Australian domestic students, the cost of completing a bachelor's degree is generally between $20,000 and $45,000, excluding some of the higher value courses. HECS-HELP loans are available for eligible students to cover the cost of tuition up to $121,844 for most degrees, and $174,998 for higher value degrees like medicine. The average higher education student debt in Australia is around $27,000 and on average takes just over 8 years to repay. Close to 3 million Australians have a student loan debt with debt totalling over $81 bn. Over 7 million have loans above $100,000.

Currently, student loans start to be paid back when an individual's income reaches $54,435, with a repayment rate that scales according to income ranging from 0% to 10% when income reaches $159,664.

The Government has announced a series of changes to HECS-HELP including:

- Indexation rate calculation change to the lower of consumer price index (CPI) or wage price index (WPI) – currently CPI. Intended to be backdated to student loans on 1 June 2023, effectively removing the 7.1% spike that occurred in 2023.
- Increased minimum repayment threshold to $67,000 in 2025-26. The repayments will also be calculated on the income above the new $67,000 threshold rather than total annual income.
- 20% loan reduction for all study and training support loans before 1 June 2025 (around $16bn).
- Rural doctors and nurses HELP debt eliminated - An initiative introduced in 2022 encourages doctors and nurse practitioners to live and work in rural, remote or very remote areas of Australia. The changes allow doctors and nurses to reduce their HELP loans if they complete the required amount of eligible work in specified remote areas.

These changes are subject to the passage of legislation and are not yet law.

PFG Connect – Summer 2024

Welcome to summer and, for many, an active season with last-minute tasks and celebrations with family and friends.

While headline inflation eased to 2.8% in the September quarter, the Reserve Bank remains unmoved on interest rates. RBA Governor Michelle Bullock says the drop in the cost of living may be welcome relief for most of us, but the Board's measure to watch is trimmed mean inflation and that's still not "sustainably" in the desired target range of 2-3%. It's not likely to get there until late in 2026, the RBA predicts.

The share market reacted sharply to the Governor's comments in the last days of a month that had seen several all-time highs. US President-elect Donald Trump's promise for 25% tariffs on Canadian and Mexican goods also contributed to the billion dollar shares sell-off. Nonetheless, the S&P ASX200 finished November 3.4% higher.

The Australian dollar is also taking a beating from the possibility of both the US tariffs and the RBA's rates forecast. It hit a seven-month low below 65 US cents near the end of the month.

And, in good news the ANZ-Roy Morgan Consumer Confidence Index, while down slightly has stayed above a mark of 85 points for the sixth week in a row for the first time in two years. Commonwealth Bank projections expect a boost in sales for small businesses thanks to the Black Friday and Cyber Monday sales and the coming festive period.

Warm regards for a wonderful festive season!

Lyle and the team at PFG.