

Tax Update May & June 2001

HOLDEN & BOLSTER

Chartered Accountants since 1971
"Partner service is our practice priority"



May 2001

FBT & GST

For those who provide Fringe Benefits

As businesses receive GST Credits for Expenses incurred in relation to Fringe Benefits and individuals dont receive a credit, the FBT gross up rate (the adjustment rate used to equate the tax effect of business incurring an expenses as opposed to an employee) has been increased. This will have the effect of increasing FBT bills this year.

If you make contributions to offset the tax benefit gained and hence dont pay FBT you will note that the amount of the contribution also will increase to offset the amount of input credits received.

For those businesses who dont provide Fringe Benefits

Providing Fringe Benefits (especially vehicles) to employees can be very tax effective in some situations. The overall tax effect of providing a vehicle, from a recent example, can save the employee up to \$5,500. In this example, the vehicle involved did a lot of kilometres, was a relatively cheap car and was financed. A similar car value may be achieved by buying an employees current private car at its appropriate value. When next reviewing an employees salary, by taking on the

administration of a company vehicle, you may be able to give them the equivalent of a substantial rise without costing yourself money, just admin time. We usually suggest for a minor number of employee vehicles the employee use a credit card for all expenses incurred and once a month these are paid. The total cost of the car is twelve payments plus the FBT amount.

GST incurred by partners

The GST incurred on business expenses incurred by partners of partnerships can be claimed as input tax credits despite the partnership not reimbursing the partner.

An example would be a vehicle run for business purposes paid for by a partner. Without the partnership reimbursing the partner, the partnership can claim the input tax credit. This could later be refunded to the partner as they have incurred the expense.

June 2001

Personal Services Income

Two draft rulings have been released clarifying the situation where a person receives payment through an entity, which is for their personal efforts or skills.

Effectively, if this legislation applies to you, deductions are limited and also you must distribute all profits from the business to yourself and not to family members.

Furthermore, payments out of the entity must be subject to PAYG withholding. ie You become an employee of your own entity and all profits must be distributed by way of salary. Hence PAYG withholding tax needs to be paid in the June Quarter if this legislation applies.

The effect of these rulings and the initial legislation is that if 80% of your (entity's) income comes from one source, you need to obtain a determination from the ATO or you are caught by this legislation.

If your income from one source is less than 80% you need to pass one of the following tests to avoid being caught by this legislation.

Unrelated Clients Test The services must be provided to at least two clients which are unrelated.

Employment Test - 20% of the individuals / entities principle work must be done by someone engaged to do this work.
Business Premises Test - At all times during the year you need to maintain business premises separate from any residential premises and also separate from the entity for which the supply is being made to.