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INTEREST RATES UP

The Reserve Bank, at its meeting this morning, decided to **increase rates yet again by 0.25%**. This is the first time since January 1990 that there have been 3 consecutive rate increases.

This move comes as data continues to emerge which shows that Australia has avoided the worst of the downturn. Jobs data indicates that unemployment will peak at 6.5% which is again below previous Treasury forecasts that it would reach 6.75% by late 2010. The unemployment rate seems to have stabilised at around 5.8% in recent months. The RBA would have taken further comfort from the fact that we now have confirmation that the Euro area and Japan have pulled out of recession.

What is difficult to determine is what the Board perceives have been the effects of the last 2 rate rises. Anecdotal evidence suggests that homeowners have maintained their repayments at earlier levels despite sharp rate falls. If this is the case then their impact would be minimal and today's increase further justified.

CHRISTMAS PARTIES, GIFTS AND FBT

Christmas is on the way and many employers will be planning their annual year-end "bash". In addition many businesses will be considering what gifts, if any, they will provide to clients and employees. However an important issue to consider is the possible FBT and income tax implications of providing "entertainment" to staff and clients. One major consideration is the "less than \$300" minor benefits exemption and the fact that the ATO now accepts that different benefits provided at (or about) the same time are not added together when applying this threshold. Basically this means that a Christmas party and gift may be exempt from FBT, even if provided at the same time, as long as each costs less than \$300!

There are a number of options for determining FBT and tax deductibility of Christmas parties. These involve such issues as whether or not the function is held on the employer's business premises or externally, and whether you choose the 50/50 method or the "actual" method. Then there is the issue of how to treat "recreation expenditure" such as entertainers. We suggest that you contact your Pinn Deavin advisor to discuss your particular plans.

Christmas gifts, such as a bottle of wine, a hamper, a pen set or gift voucher are generally **not** considered to be entertainment. On the other hand, gifts such as theatre or sporting event tickets

or holiday airline tickets **are** considered to be entertainment. The consequences of making Christmas gifts are:

- Gifts to employees and family members – FBT is payable (where the \$300 threshold is exceeded) and a tax deduction is allowed
- Gifts to clients, suppliers etc – no FBT. A tax deduction is allowed for non-entertainment expenditure but is not allowed for expenditure considered to be in the nature of entertainment.

CHANGES TO SUPERANNUATION CO-CONTRIBUTION RATES

Where you are eligible and make personal superannuation contributions to a complying superannuation fund the Government matches that contribution with a co-contribution up to certain limits. From 1 July 2009, the Government made temporary changes to this measure.

Under the temporary changes, the new matching rates will be:

- 100% (\$1 for every \$1) for the 2009/10, 2010/11 and 2011/12 years, with a maximum co-contribution of \$1,000
- 125% (\$1.25 for every \$1) for the 2012/13 and 2013/14 years, with a maximum co-contribution of \$1,250
- 150% (\$1.50 for every \$1) from 2014/15 onwards, with a maximum co-contribution of \$1,500.

From 1 July 2009 until 30 June 2010, the lower income threshold is \$31,920 and the higher threshold (at which the co-contribution cuts out) is \$61,920. The maximum entitlement is \$1,000. However, you are required to reduce this by 3.333 cents for every dollar that your "total income" exceeds \$31,920 up to \$61,920.

FREE SUPER CLEARING HOUSE FOR SMALL BUSINESS

The Government has announced that it will deliver its free superannuation clearing house service for small business through Medicare Australia. The clearing house service will be available free of charge for small businesses with less than 20 employees from July 2010. Small businesses will be able to register for the service from May 2010.

Key features of the superannuation clearing house include:

- Eligible small businesses will register for the service on-line and thereafter their superannuation contributions will be paid to a single location (the clearing house), which will forward them on to the nominated superannuation funds
- Employers will also be able to pass on choice of fund nominations to the clearing house for processing
- Medicare Australia will develop an on-line system for registration and ongoing payments, with payments initially being made via EFT.

NEW EMPLOYMENT LAWS

In most cases small businesses are no longer exempt from unfair dismissal laws as the 2009/10 financial year has ushered in a new industrial relations system under the provisions of the Fair Work Act 2009. Under the new provisions, there will also be greater powers for the new industrial relations umpire to enforce good-faith bargaining. Other changes include new standards for collective bargaining and the restoration of some safety net conditions. These conditions comprise 10 National Employment Standards and new modern awards and will come into effect on 1

January 2010.

We recommend that you firstly determine the extent of the new laws' application to your particular circumstances and secondly, if you are affected, familiarise yourself with the new provisions.

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