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What are the FBT implications of Employee Christmas Parties and Gifts?

The Christmas break-up party and/or gifts to employees can be exempt from Fringe Benefits if a few rules are followed.

The cost can be exempt as either an exempt property benefit or an exempt minor benefit.

Exempt Property Benefits

- Costs like food and drinks provided for employees as part of a Christmas party, on a working day on business premises and consumed by current employees of that business.

Exempt Minor Benefits

- This is applicable when the property benefits exemption doesn't apply (i.e. because the party is held at a restaurant or separate venue).

- The cost per employee must be less than $300 (GST inclusive)

- Associates of employees such as spouses and children are regarded as employees (hence the limit for an employee and partner would be $300 each)

- Going over the $300 limit can be expensive. The difference between spending $290 per head and $310 per head isn't just $20. The employer is looking at quite a substantial tax bill if that's the case.

- The $300 limit was set in 2007 and was seen as quite generous. Now, though, due to years of inflation, $300 is quite easily reached, so an employer needs to be careful.

- It seems the only surefire way to avoid FBT was to spend less than $300 per head or hold the event on a working day and on the business premises.

- FBT is not payable on the party costs for invited clients, but the $300 threshold applied to "associates of employees (such as their partners)" and to gifts.

- Another factor to be considered is the potential for income tax deductions for the cost of the party, which were claimable only if FBT applied.

- The ATO advised celebrating businesses – regardless of guests, venue or cost per head – to keep records of all spending for the post-Christmas tax hangover.

The minor benefits threshold of less than $300 applies to each benefit provided, not to the total value of all associated benefits.

Gifts are also considered separately from the Christmas party, so provided the cost of a gift and the party are each less than $300, then both would be exempt from FBT.

The greatest compliment we receive from our clients is the referral of their friends, family and business colleagues. Thank you for your support and trust.

Christmas Parties and Taxi Fare/Rideshare – FBT implications.

Some employers, look to protect their employees and clients from the drink/driving laws, and often pay for taxis/rideshare to and from the place of entertainment.

For FBT purposes there may be different consequences for payment of the taxis/rideshare fare. For clients, the taxis/rideshare fare is considered to be part of the entertainment expense, and no deduction is allowable. For employees, if the fare is for travel from home to the place of entertainment (not being their place of employment) and return home again, the benefit is considered to be for the facilitation of entertainment and is not a separate benefit from the entertainment itself.

The result is that the employer would then have to rely on the total entertainment package being under $300 for the minor benefit rule to apply.

However, if the function is held on the employer's premises, the taxi trip is FBT exempt if it is a single trip beginning or ending at the employer's premises. For example, the exemption would apply if the employee went from the workplace to home, or any other place.

However, the exemption would not apply if the trip was broken and continued at some other time. For example, the employee gets a taxis/rideshare from the workplace and goes out to a nightclub; that trip is deductible and exempt from FBT. If the employee later gets another taxis/rideshare to home, that leg of the trip would be deductible to the employer but FBT would be payable.

Note however, that if the employer is using the 50/50 split method of calculating FBT and deductions, the taxi travel would always be included in the cost of entertainment, and there would be no exempt journey for travel from the workplace to home.

Uber and other ride sharing services are now also included for FBT exemption as taxi services, after changes to the FBT Act, from 1st April 2019.

Protect your small business by following these essential steps.

Cyber security is everyone's business. With cyber threats becoming more frequent and complex now is the time to make sure your business is secure.

A good first move is to talk to your employees and colleagues about the essential steps that you can all take to protect your digital identities and keep your business operating smoothly. With these 4 simple actions, you can greatly reduce the risk and impact of cyber threats on your business:

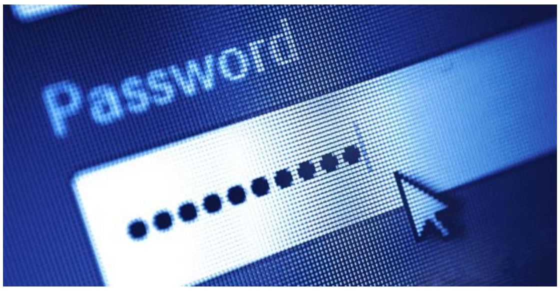
1. Use strong passwords that are long, unique and unpredictable.
2. Turn on multi-factor authentication (MFA).
3. Turn on automatic software updates.
4. Recognise and report phishing scams.

Use strong, long and unique passwords.

Strong passwords are your first defence against unauthorised people trying to access your online accounts.

Across your business accounts, make sure you use long, unique and unpredictable passwords for each account. You could also try using 'passphrases' (passwords made of 4 or more random words) which are more complex, making it harder for criminals to crack.

For more on passwords, read our article: 6 steps to better password hygiene.



Turn on multi-factor authentication (MFA)

Multi-factor authentication, also known as MFA, adds an extra layer of protection by asking you in 2 or more ways to prove that an authorised person is logging in. It makes it much harder for others to access your online accounts.

For more on general cyber security and multi-factor authentication, read our article: The essential small business guide to cyber security.

Turn on automatic software updates

Turning on automatic software updates for your business devices and apps is one of the easiest ways to protect yourself online. Check your device's settings and make sure that automatic updates are turned on across all your business devices.

For more on software updates and general cyber security, read our article: The essential small business guide to cyber security.

Recognise and report phishing scams.

(Phishing: the fraudulent practice of sending emails or other messages purporting to be from reputable companies in order to induce individuals to reveal personal information, such as passwords and credit card numbers.

(NB: Added to the above four, always remember to check the sender's address. Scammers can go close, but they cannot use the exact same URL (domain address) as the company they purport to be from. If still in doubt, then ring the company involved to double check. Doing these two things will go a long way to stopping you being scammed.)

Phishing is one of the most common scams used by cybercriminals to steal personal and financial information. To avoid getting caught by phishing, be cautious with unsolicited messages or links and encourage everyone with access to your business emails and messages to look out for red flags, like urgent language requesting you to take action.

For more on phishing, read our article: Spyware and stalkerware: How to check and protect your business devices.

More cyber security resources.

By taking the 4 steps, you can greatly lower your risk of falling victim to cyber threats. For more practical advice and tips on how to protect your business, see Business Victoria's range of cyber security resources:

- Register for the Business Victoria cyber security course
- 6 cyber security tips for remote working

- Do you have a data backup plan?
- How to avoid multi-factor authentication prompt bombing cyber attacks. How to avoid multi-factor authentication prompt bombing cyber attacks
- How to protect your business from Business Email Compromise (BEC)
- How to stay cyber-safe between offsite and onsite workplaces
- Keeping your business cyber safe
- Manage cyber security in your business
- Paying online? Make sure you check these 3 red flags
- Recognising and protecting your business from cyber security threats
- STOP and follow these 4 steps to increase your cyber security
- Why a simple update policy could save your business from cyber attacks

The Key Ingredients for Business Success (Part 1)

At some stage in life, most people entertain the idea of starting a business. The attraction of being your own boss, more freedoms, and potentially a higher income is almost irresistible. While there's no magic potion or secret formula that guarantees business success, highly successful businesses have some common characteristics that we will explore across a series of articles. **This is Part 1.**

Are You Suited to Entrepreneurship?

Before we explore the common denominators of successful businesses, let's look at whether you have the right DNA to run a business. People go into business for a multitude of reasons, but some people almost fall into business by accident. While entrepreneurship sounds attractive, it isn't for everyone and the traits of successful business owners often include being disciplined, organised, passionate, skilled and creative. If you want to go into business, you need to be prepared to make sacrifices including working longer hours plus self-employment comes with added pressure, stress and risk. The survival rate in the first five years isn't encouraging with around 50% of Australian small businesses disappearing in that timeframe.

The reasons for the relatively low survival rate are many and varied but it comes as no surprise to find that the big business killer is a lack of finance. Of course, this could be a symptom of bad financial management, a lack of demand, low quality products, poor marketing, the wrong location or bad business management. Having the wrong team, supplier or pricing model can suffocate your business and burnout could be the signal to get out.

While there's no simple formula that guarantees business success, we can learn from the mistakes of others. It can be a fine line between success and failure and starting or buying a business necessitates research, risk, passion and courage. To succeed you need to make the right opening moves so planning and timing are vital. The COVID-19 pandemic highlighted the importance of timing, and all markets go through the four phases of the business life cycle – start-up, growth, maturity and finally decline. Though decline can be addressed but requires a business to reinvent itself 7-10 years, as if it is stating again.

Where is the market for your business right now?

Ideally, you want to join the market in the growth phase rather than the decline stage so you need to do your homework because an industry or product can move to the next stage very quickly. For example, is there new technology on the horizon that could disrupt the industry and potentially make your idea or product obsolete or redundant?

A lot of budding entrepreneurs get swept up in the excitement of starting their business and in the rush, they bypass some important steps and check points. Some businesses are born out of simple ideas but quickly enter a world of legal complexity with industry and government regulations.

Failing to tie up the legal loose legal ends can prove fatal, and the truth is, enthusiasm, money, hard work, talent and a great idea are usually 'must haves' but they don't guarantee success. Being a good technician is not enough anymore, you need to be able to manage the business compliance and management aspects, particularly if you plan to grow and employ staff.

While the business start-up phase can be a whirlwind of ideas it can also be a management minefield. The excitement of entrepreneurship can blur your decision making and start-ups need to make key decisions about the business or tax structure, accounting software and insurances. There are business registrations to complete, and you need to consider the best way to finance plant and equipment. If you're looking to employ staff from the outset there are human resource issues to consider including employment agreements, payroll software, holidays, workers compensation insurance plus superannuation guarantee obligations. For an entrepreneur fuelled by excitement and adrenaline, this endless list of 'to do' items can be frustrating but rushing the process can mean you miss one key issue that can trip you up with catastrophic financial consequences.

What Are the Characteristics of Successful Businesses?

Every business is different but in this series of articles we will explore the common traits of highly successful businesses.

1. **Planning**

In business, failing to plan is planning to fail. Building a business is a bit like building a house, you need to have a plan and build on solid foundations.

Your business plan should include a marketing plan, and a cash flow forecast for the first 12-months of operation. With no trading history you'll need to make lots of assumptions to piece this together but remember, nobody understands your business idea better than you.

The start-up phase is hectic and it's easy to get caught up in issues like product development or burying your head in researching your customer's habits and your competitor's marketing. Too often we find start-ups overestimate demand for their products and underestimate their costs. That often translates to a cash flow shortage in the early stages which can prove fatal. Your budget and financial plan are key documents, particularly if you need to secure finance from a bank or third party.

There's a lot at stake and hitting the start button without financial proof that your business is viable could mean you burn a lot of cash and possibly burn yourself out in the process. Your business plan must prove to investors and financiers that your business concept works, and make sure you seek professional advice to verify your figures. If the numbers don't stack up, you need to make a big decision. Look to cut costs, not corners and if you can't prove the viability of the business you will struggle to raise finance which is a big red flag. Revisit your business plan and see if you can make strategic changes to increase the revenue or reduce costs:

- Put your five largest expenses under the microscope to see if they can be pruned.
- Review your prices - will the market tolerate a 10% increase in price and what impact will that that have on your bottom line?
- Can you source cheaper inputs from suppliers without compromising the quality of your products?
- Could you operate from smaller or cheaper premises in the short term?
- Do you need all the staff you have budgeted for in the first 6 to 12 months?
- What can you do to get a better result from your online marketing activities?
- Should you lease rather than buy plant and equipment?
- Could you offer additional related services to increase your revenue?
- Are there new markets you could try without overextending your resources or finances?
- Is there a different niche target market you have overlooked?

2. Point of Difference

If your business doesn't have a clear point of difference compared to your competitors, it's unlikely you'll win a big slice of the market. In many industry sectors there is a 'sea of sameness' so you need to find something that clearly distinguishes your business from the pack. Starting and competing in a congested market without a serious point of difference is going to prove an uphill battle.

Entering a mature market means you are up against established businesses who have a head start on you. They probably already have a large customer base, proven products and systems, a website and a social media footprint. If your business doesn't offer something new or innovative then you must have another distinguishing feature. The less innovative the business idea, the more compelling your point of difference needs to be.

If you run a pizza shop, hairdressing salon or coffee shop you've probably got lots of local competitors. It might be very difficult to differentiate your product or service but that's where you need to think outside the box and your marketing might need to be your differentiator. Your point of difference doesn't need to be unique, but it does need to be of value to your customers, clients or patients. Solve a problem, promise faster, cheaper or better quality products or services. Bundle a unique combination of products or services together and make them practical, impressive and convincing. Finally, don't forget to heavily promote your point(s) of difference!

As a guide, your differentiators must tick these three boxes:

- ✓ Truthful – you can't just make it up and you must deliver on your promise.
- ✓ Provable – You must be able to prove it's real to a sceptical potential customer.
- ✓ Relevant – it has to mean something to a potential customer.

Of course, markets evolve, and you might catch your competitors off guard if they fail to adapt to changes in consumer demand or technology. Look at the history of former market leaders like Kodak and Nokia. They failed to adapt to changes in consumer behaviour and paid a very high price. As a new player in the market, this could be your point of difference and edge by having the latest technology or systems that deliver a better, faster or simpler customer experience.

3. Know Your Numbers

Successful business owners know their numbers. This includes:

- The cost of goods they sell.
- The gross profit margin on every product they sell.
- How many sales they need to make each day or week to break even.
- The key performance indicators (KPIs) in the business.
- The key profit drivers in the business.
- Weekly/Monthly Payroll and fixed costs.

The Key Ingredients for Business Success (Part 1)

Probably the most important number is your price. While you might have the newest, most exciting product or service in your industry, can you bring it to market at a price consumers will accept and still make a sustainable profit? No matter how special you think the goods or services are, there's

always an upper limit as to what people are prepared to pay. Remember, your competitors have alternative products and probably at different price points.

Your competitor's prices or the industry benchmarks can give you some idea on the price range you should target but be very careful about discounting. That strategy might get you a toehold in the

market, but low margins can bring a business to its knees. It might drive sales in the short term, but it can create an issue with future price expectations and also create a perception that the quality of your goods is below your competitors. This can also reflect poorly on your brand, particularly when you're hanging your hat on the quality of your products. While discounting has its place, there needs to be a purpose behind the price drop. It could be to clear old or obsolete stock; you might need to generate some cash flow, or it could be a 'loss leader' to win a new customer.

If you need help with setting your prices talk to us today. We will make sure your price calculations include all costs and still allow you to make a sustainable profit. We can do some financial modelling based on different price points and input costs to help you prepare forecasts for various scenarios including best case, worst case and the mid-point.

Businesses don't succeed by accident and yours won't either. Running a business is a work in progress and you have to constantly review what is working, what isn't working and what needs working on. The numbers tell a story, and they can alert you to emerging issues. For example, if your weekly or monthly sales fall below break-even point you need to read the warning signs. If sales for this week or month compared to the same period last year have dropped dramatically it should trigger some response. Industry benchmarks can help you get an understanding of the performance of your competitors and where you might need to improve operations. For a start-up business these benchmarks can be invaluable because you have no financial track record and there is a lot of estimates and guess work when preparing your budget

Summary

Entrepreneurship isn't for everyone. No amount of blood, sweat or tears can guarantee the financial success of your business and businesses fail for a number of reasons. Successful businesses have a plan, develop a clear point of difference and know their key numbers. Timing is important and sometimes luck can be the difference between surviving and thriving. Of course, when it comes to luck, the harder you work, the luckier you get.

you'll read in other articles in this series, they also have a lead generation website and are marketing savvy. They systemise their business processes and do their homework on their competitors.

If you're looking to build and grow a successful business, we invite you to contact us today.

The greatest compliment we receive from our clients is the referral of their friends, family and business colleagues. Thank you for your support and trust.

How to read a Balance Sheet

It's common for small businesses to struggle when understanding their financial data. Cash flow needs and a Profit and Loss statements are analysed more often by business owners and are understood better.

A Balance Sheet, on the other hand, is often a mystery. It is, though, still important to keep an eye on this data and the following will help.

When it comes to understanding a business, there are few financial statements more important than the balance sheet. The balance sheet offers critical insights into the health of a business that can be used by:

- Potential investors to decide whether to invest in a company.
- Business owners to craft updated organisational strategies.
- Employees to adjust their processes to better reach shared organizational goals

Whether you're a business owner, employee, or investor, understanding how to read and understand the information in a balance sheet is an essential financial accounting skill to have.

Here's everything you need to know about understanding a balance sheet, including what it is, the information it contains, why it's so important, and the underlying mechanics of how it works.

What Is a Balance Sheet?

A balance sheet is a financial document designed to communicate exactly how much a company or organisation is worth—its so-called "book value." The balance sheet achieves this by listing out and tallying up all of a company's assets, liabilities, and owners' equity as of a particular date."

The Purpose of the Balance Sheet

A balance sheet provides a summary of a business at a given point in time. It's a snapshot of a company's financial position, and is broken down into assets, liabilities, and equity. Balance sheets serve two very different purposes depending on the audience reviewing them.

When a balance sheet is reviewed internally by a business leader, key stakeholder, or employee, it's designed to give insights into whether a company is succeeding or failing. Based on this information, a company's management can shift their policies and approach: doubling down on successes, correcting failures, and pivoting toward new opportunities.

When a balance sheet is reviewed externally, it's designed to give insights into what resources are available to a business and how they were financed. Based on this information, potential investors, for example, can decide whether it would be wise to invest or not. Similarly, it's possible to leverage the information in a balance sheet to calculate important metrics, such as liquidity, profitability, and debt-to-equity ratio.

External auditors, on the other hand, might use a balance sheet to ensure a company is complying with any reporting laws it's subject to.

It's important to remember that a balance sheet communicates information as of a specific date. By its very nature, a balance sheet is always based upon past data. While investors and stakeholders may use a balance sheet to predict future performance, past performance is no guarantee of future results.

The Balance Sheet Equation

The information found in a balance sheet will most often be organised according to the following equation:

Assets = Liabilities + Owners' Equity.

While this equation is the most common formula for balance sheets, it isn't the only way of organising the information. Here are other options you may encounter:

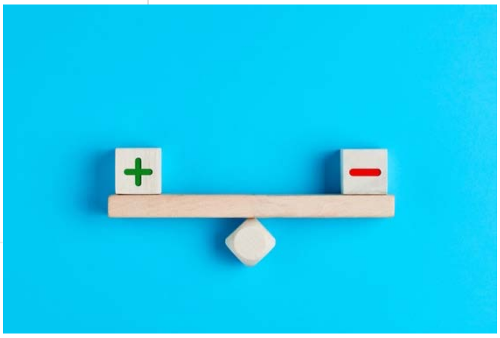
Owners' Equity = Assets – Liabilities

Liabilities = Assets - Owners' Equity

A balance sheet should always balance.

If a balance sheet doesn't balance, it's likely the document was prepared incorrectly. Typically, errors are due to incomplete or missing data, incorrectly entered transactions, errors in currency exchange rates or inventory levels, miscalculations of equity, or miscalculated depreciation or amortisation.

How to read a Balance Sheet



Here's a closer look at what's typically included in each of those categories of value: assets, liabilities, and owners' equity.

1. **Assets**

An asset is defined as anything that is owned by a company and holds inherent, quantifiable value. A business could, if necessary, convert an asset into cash through a process known as liquidation. Assets are typically tallied as positives (+) in a balance sheet and broken down into two further categories: current assets and noncurrent assets.

Current assets typically include anything a company expects it will convert into cash within a year, such as:

- Cash and cash equivalents
- Prepaid expenses
- Inventory
- Marketable securities
- Accounts receivable

Noncurrent assets typically include long-term investments that aren't expected to be converted into cash in the short term, such as:

- Land
- Patents
- Trademarks
- Brands
- Goodwill
- Intellectual property
- Equipment used to produce goods or perform services

Because companies invest in assets to fulfil their mission, you must develop an intuitive understanding of what they are. Without this knowledge, it can be challenging to understand the balance sheet and other financial documents that speak to a company's health.

2. **Liabilities**

A liability is the opposite of an asset. While an asset is something a company owns, a liability is something it owes. Liabilities are financial and legal obligations to pay an amount of money to a debtor, which is why they're typically tallied as negatives (-) in a balance sheet.

Just as assets are categorised as current or noncurrent, liabilities are also categorised as current liabilities or noncurrent liabilities.

Current liabilities typically refer to any liability due to a debtor within one year, which may include:

- Payroll expenses
- Rent payments
- Utility payments
- Debt financing
- Accounts payable

- Other accrued expenses

Noncurrent liabilities typically refer to any long-term obligations or debts which will not be due within one year, which might include:

- Leases
- Loans
- Bonds payable
- Provisions for superannuation
- Deferred tax liabilities

Liabilities may also include an obligation to provide goods or services in the future.

3. Owners' Equity

Owners' equity, also known as shareholders' equity, typically refers to anything that belongs to the owners of a business after any liabilities are accounted for.

If you were to add up all of the resources a business owns (the assets) and subtract all of the claims from third parties (the liabilities), the residual leftover is the owners' equity. Owners' equity typically includes two key elements. The first is money, which is contributed to the business in the form of an investment in exchange for some degree of ownership (typically represented by shares). The second is earnings that the company generates over time and retains.

A Crucial Understanding

The information found in a company's balance sheet is among some of the most important for a business leader, regulator, or potential investor to understand. Without this knowledge, it can be challenging to know whether a company is struggling or thriving, highlighting why learning how to read and understand a balance sheet is a crucial skill for anyone interested in business.