

Giving money away

Many taxpayers are surprised that they cannot claim a tax deduction for the cost of attending charity events or purchases made at charity auctions. Plus, if employees attend these events, it's possible that Fringe Benefits Tax applies. We look at some of the key areas of confusion.

Question: I attended a charity golf day that cost me \$450. Given that this is all for charity, can I claim it as a tax deduction?

Answer: Except for certain circumstances, if you have received a benefit for the amount that you contributed to the charity, then you cannot claim a tax deduction. The Tax Office considers that you have made a purchase rather than a donation as there is some benefit to you.

There are however, certain circumstances in which you can claim a tax deduction:

- The donation is made to a charity that is a "deductible gift recipient". That's Tax Office speak for a charity they have approved as being eligible to receive tax deductible status. You can download a full list of DGRs from the tax office website.
- The contribution is money over \$250.
- The item was purchased during the 12 months before you made the contribution and valued at more than \$250
- Or, is property is valued by the Commissioner at more than \$5,000
- And, the benefit you receive (round of golf) must be no more than 10% of the value of the contribution, or \$100, whichever is less.

So, for you to be able to claim your golf day as a tax deduction, the market value of the round of golf must be less than \$45. If a round of golf at the golf club is normally \$40 (yeah right), you could claim a deduction of \$410 (\$450 - \$40) as a tax deduction. This assumes of course that there are no other benefits included in the golf day like a dinner.

The other question that normally follows charity events is can I claim a tax deduction for an item purchased at a charity auction. The answer is the same as above. If the contribution you made to the charity was no more than 10% of the value of the item purchased, then you can claim a deduction. If not, you've just been a really good sport.

Question: OK let's look at it another way. Let's say my business sent an employee to a charity golf day and also invited along several key clients. Can my business claim a tax deduction?

Answer: In this situation, the charity golf day would be considered as an entertainment fringe benefit. The provision of entertainment means that you provide food, drink or recreation. Providing entertainment to employees and clients by providing access to sporting or theatrical events, sightseeing tours, holidays are some of the examples of the provision of entertainment.

The material and contents provided in this publication are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If expert assistance is required, professional advice should be obtained.

What's it worth?

Walter Hunt invented the safety pin. Hunt was granted the patent for the safety pin, known then as the dress pin, back in 1849. Unfortunately, he was also in debt owing \$US15 and sold the rights to the patent for the grand sum of \$US400 to his creditor.

The patent of this everyday item is worth a fortune and while the \$US400 Hunt secured back in 1849 was a large sum for its day, it is nothing by comparison to the value of the patent over time.

Seeing this fact in the weekend paper made us think about the concept of value and the difficulty business owners have in establishing the true value of what they have. Over the last few decades we have seen a massive shift in the perception of value. Once, value was almost entirely derived from property. Now however, we live in an age where companies like Google don't produce traditional products but the size of their distribution channel is worth billions (Google has a market capitalisation of \$US1.34 billion). Even a business model whose time is yet to come can be worth millions. For example, Woolworths paid \$12 million for 26% of Greengrocer.com.au back in 2000 and \$7 million for 62% in 2001

How much should I pay?

How much are your team members worth and what is their value to your business? Tricky questions made even more difficult by the current labour shortage experienced across many industries in Australia.

As many employers will testify, the labour shortage has pushed up wages. Current salary surveys confirm that over 40% of employers surveyed have experienced increase of between 3% and 6%. An even higher figure reported increases of 6% to 10%.



In many circumstances, every time you hire a new team member, the price of that labour is higher than it was for the previous person. The other factor pushing up salaries is the desire to retain staff. Employers appear to be so concerned about keeping staff that they are paying more to keep staff happy.

No one should underestimate the impact of what an employee's salary level means. Compensation is important as it is one of the measures of a company's appreciation for your effort, skills and results. If a team member believes that the company does not appreciate what they contribute enough to compensate them, then it's another reason to go. This is particularly relevant to your high achievers who actively commit their energy and effort to the company often above and beyond the efforts of others.

If you are using salary as a reward and motivator, you need to ask yourself whether money is the only motivator for an employee to stay with your company. A salary increase is only a benefit for a limited period of time. After a few months it is no longer a benefit but a right.

Often what tends to occur is that general dissatisfaction with a staff member's role (or manager) will take them from a position of being passively open to a change to actively initiating a change. The salary level is often the 'last straw'.

Staff are rarely given clear and concise individual performance targets that demonstrate their value to the company. If we don't know what they achieved then what we pay them becomes a very personal issue because it comes down to the manager's discretion and opinion. While keeping pace with market trends and inflation are a reality for any business, salary increases beyond this level need to be on the basis of identifying what is realistically going to change in that role to deliver a result that justifies the increase. Once identified, these criteria form part of the employee's job description for that year.

For employees also, if they know they have achieved results based on clear criteria, they can make their case as opposed to feeling like they need to go 'cap in hand' to the manager's door for a change.

For an assessment of your organisational performance, talk to us today.

Giving away money *continued*

If you use the expenditure method for FBT purposes, then the employee's portion would be subject to FBT and tax deductible. The clients and suppliers portion would not be subject to FBT and non-tax deductible.

If you use the 50/50 split method then 50% of the total entertainment cost would be subject to FBT and tax deductible.

Giving away money *continued*

If you use the expenditure method for FBT purposes, then the employee's portion would be subject to FBT and tax deductible. The clients and suppliers portion would not be subject to FBT and non-tax deductible.

If you use the 50/50 split method then 50% of the total entertainment cost would be subject to FBT and tax deductible.

With the charity golf day, the purpose of the payment is for fund raising to the charity. Provided the donation was made to a DGR and the market value of the benefit provided to each employee is less than \$100, then it is considered to be minor benefit provided to the employee (i.e., FBT exempt). As it is exempt from FBT it is not deductible.

What's it worth? *Continued*

It is not uncommon for small and medium businesses to be faced with the issue of establishing a price for access to their market through partnerships, sale of shares in the company, and the sale of intellectual property. The hardest thing is establishing what the value is.

Complicating the issue for Hunt was the circumstances under which the sale of the patent was made. Hunt needed money and had little choice but to sell. When the owner is under stress - be it financial or health pressures - this is the worst possible scenario for a sale. Emotion often gets in the way.

The lesson from the safety pin is to fully understand the value of what you have and take the emotion out of any valuation and sale negotiation. If you are in any doubt or face any form of emotional pressure, get a second opinion.