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## DECEMBER 2024 EDITION

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**Note:** 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.

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## Tax and tinsel Q&As

**Can you avoid giving the Australian Tax Office a gift this Christmas?**

### The top Christmas party questions

**What can I do to make the staff Christmas party tax deductible or tax-free?**

Not have one? Ok, seriously, it's likely that you will pay tax one way or another; it's just a question of how. If you structure your celebrations to avoid fringe benefits tax (FBT), then you normally can't claim a tax deduction for the expense or goods and services tax (GST) credits.

#### No FBT

If you host your Christmas party in the office on a working day, then FBT is unlikely to apply to the food and drink. Taxi travel that starts or finishes at an employee's place of work is also exempt from FBT - helpful if you have a few team members that need to be loaded into a taxi after overindulging in Christmas cheer.

If you host your Christmas party outside of the office and keep the cost per head under \$300 (the FBT minor benefit limit) then FBT often won't apply to the cost of entertaining your employees.

But, if you do not incur FBT, you cannot claim GST credits or a tax deduction for the Christmas party expense. *Continued over...*



## Merry Christmas

We want to take this opportunity to wish you and your family a safe and happy Christmas.

It's been an eventful and busy year. Let's hope 2025 is a year of stability and peace.

We will look forward to working with you again in 2025 and making it the best possible year for you.

We wish you and your family the warmest of Christmas wishes.

### Office closure

Our office will be closed for Christmas from 20<sup>th</sup> December 2024 and will reopen on 6<sup>th</sup> January 2025.

## Quote of the month

“If you haven't got any charity in your heart, you have the worst kind of heart trouble.”

*Bob Hope, Comedian*

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### Tax deductible

If your business hosts slightly more extravagant parties away from the business premises and the cost goes above the \$300 per person minor benefit limit, you will pay FBT but you can also claim a tax deduction and GST credits for the cost of the event.

### Are the costs of client gifts deductible?

It depends on the gift and why you're giving it. If you send a client a gift, the gift is tax deductible if you have an expectation that the business will benefit; it's marketing. While this seems like a mercenary way to look at Christmas giving, it is the business giving the gift, not you personally. This assumes that the gift is not a gift of entertainment like golf, or restaurants, which would not be deductible.

### What about gifts for staff? Are they tax deductible?

The key to Christmas presents for your team is to keep the gift spontaneous, ad hoc, and from a tax perspective, below the \$300 FBT minor benefit limit. So, no ongoing gym memberships or giving the same person several of the same gift that adds up to \$300 or more unless you want to give a gift to the ATO at the same time. But, you can give gifts at different times throughout the year without triggering FBT as these are counted separately for the minor benefit limit.

A cash bonus will be treated as income in much the same way as salary and wages.

### I like to catch up with clients for lunch or a drink (or two) at Christmas. These expenses are deductible, right?

Regardless of whether it's for Christmas or at any other time of the year, the cost of entertaining your clients – food, drink or other entertainment – is not deductible. The ATO is keen to ensure that taxpayers are not picking up part of the cost of your long lunches or special events while you're bonding with clients.

# What's ahead in 2025?



The last few years have been a rollercoaster ride of instability. 2025 holds hope, but not a guarantee, of greater stability and certainty. We explore some of the key changes and challenges.

## An election

Welcome to political advertising slipping into your social media, voicemail, and television viewing - most likely with messages from the opposition asking if you are better off, and from the incumbents telling you all the reasons why you are.

The 2025-26 Federal Budget has been brought forward to 25 March 2025. This suggests an election will be held in either March or May 2025 but no later than 17 May 2025.

### Legislation in limbo

The Senate pushed through 32 Bills on the final sitting day of parliament for 2024 including seven of direct relevance to business and to the financial interests of some Australians. However, two key announcements remain in limbo:

### \$3m tax on earnings in a superannuation fund

The proposed Division 296 tax, which imposes a 30% tax rate on future earnings for superannuation balances above \$3 million, is proposed to commence from 1 July 2025. The Bill enabling the new tax is stalled in the Senate. It's unlikely that this tax will pass parliament prior to the election; at which point, the Bill lapses. It then becomes a question of whether the elected Government chooses to rectify the concept or let it fade into oblivion as a bad idea.

### \$20,000 instant asset write-off for small business

In the 2024-25 Federal Budget, the government announced the extension of the \$20,000 instant asset write-off threshold for small business for a further year to 2024-25. The concession enables businesses with an aggregated turnover of less than \$10 million to immediately deduct the full cost of eligible depreciating assets costing less than \$20,000. Without this measure, the threshold returns to \$1,000. This concession was removed by amendment from the enabling legislation at the last minute in the final sitting of Parliament of 2024. The removal of this measure is unfortunate, as once again, SMEs now have no confidence about the tax treatment of investments in assets that they might be looking to make, or have made, in the current financial year.

## Tax & super changes

### Foreign resident capital gains withholding changes on sale of property

One of the Bills pushed through Parliament at the end of 2024 changes how capital gains withholding applies to foreign residents from 1 January 2025.

Currently, residents selling taxable Australian property must provide a clearance certificate to the purchaser at or before settlement to avoid having

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12.5% withheld from a property sale where the value of the property is \$750,000 or more. If applicable, the withholding is then made available as a credit against any tax liability. The vendor only receives any refund due after their next income tax return is processed at tax time.

From 1 January 2025 however, the threshold will be removed and the withholding rate increased so that:

- The withholding is increased from 12.5% to 15%; and
- The withholding applies to the sale of all Australian land and buildings by foreign residents, regardless of the value of the assets.

The reforms apply to acquisitions made on or after 1 January 2025.

### Superannuation rate increases to 12%

The Superannuation Guarantee (SG) rate will rise from 11.5% to 12% on 1 July 2025 - the final legislated increase.

### Super on Paid Parental Leave

From 1 July 2025, superannuation will be paid on Paid Parental Leave payments. Eligible parents will receive an additional payment based on the superannuation guarantee (i.e. 12% of their PPL payments), as a contribution to their superannuation fund.

## Interest rates

At the last Reserve Bank Board (RBA) meeting, RBA governor Michele Bullock recognised the easing of headline inflation from 5.4% to 2.8% over the year to September 2024 but suggested that the economy still has some way to go before inflation is *sustainably* within the 2% to 3% target range. The RBA appears wary of volatility and wants to see inflation sustainably trending down before making any move. Commbank is predicting a February 2025 rate cut, ANZ and Westpac May 2025, and NAB June 2025.

## Cost of living pressures

The National Accounts released in early December took economists by surprise with living standards growing by a mere 0.2% in the September quarter – the expectation was much higher. Discretionary spending only increased by 0.1%.

The personal income tax cuts that came into effect from 1 July 2024 helped households, as did energy subsidies, but the impact is still working its way through the system. At the same time, mortgage costs continue to rise as past increases continue to impact.

Through the year, Australia's economy grew 0.8%, the lowest rate since the COVID-19 affected December quarter 2020. Economic activity in the Australian economy right now is heavily dependent on Government spending.

Slow and steady is the expectation for 2025.

## The 'Trump effect'

President-elect Trump will recite his oath of office on 20 January 2025. The Trump administration will hold the presidency, Senate and the House.

For Australia, the question is the likely impact of some of President-elect Trump's stated policy objectives including the imposition of tariffs. On social media, Trump has said:

- "...as one of my many first Executive Orders, I will sign all necessary documents to charge Mexico and Canada a 25% Tariff on ALL products coming into the United States, and its ridiculous Open Borders."
- "...we will be charging China an additional 10% Tariff, above any additional Tariffs, on all of their many products coming into the United States of America." This in response to claims that China is responsible for massive amounts of drugs, in particular Fentanyl being sent into the US.

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The issue for Australia is the secondary impact of a trade war. China is Australia's largest two-way trading partner, accounting for 26% of our goods and services trade with the world in 2023. A slowdown in the Chinese economy impacts Australia and the region generally.

An immediate impact of the idea of a trade war has been the decline of the AUD/USD, currently sitting at around 64c.

## Fuel efficient cars

New standards for vehicle manufacturers come into effect from 1 January 2025. Vehicle manufacturers will have a set average CO<sub>2</sub> target for all new cars they produce, which they must meet or beat. The target will be reduced over time and car companies must provide more choices of fuel-efficient, low or zero emissions vehicles.

Suppliers can still sell any type of vehicle they choose but with more fuel-efficient models offsetting any less efficient models. If suppliers meet or beat their target, they'll receive credits. If they don't, they will have two years to either trade credits with a different supplier, or generate credits themselves, before a penalty becomes payable.

## Wage theft criminalised

As of 1 January 2025, the intentional underpayment of workers will be criminalised.

Employers will commit an offence if:

- they're required to pay an amount to an employee (such as wages), or on behalf of or for the benefit of an employee (such as superannuation) under the Fair Work Act, or an industrial instrument; and
- they intentionally engage in conduct that results in their failure to pay those amounts to or for the employee on or before the day they're due to be paid.

Employers convicted of wage theft face fines of up to 3 times the amount of the underpayment and \$7.825 million.

## Phasing out cheques

The Government has announced a transition plan to phase out the use of cheques. Under the plan, cheques will stop being issued by 30 June 2028 and stop being accepted on 30 September 2029.

The use of cheques has declined dramatically over the last 10 years, declining by around 90%. In response, banks have stopped issuing chequebooks to new customers. However, financial institutions have a legislated requirement to accept cheques until the Government no longer requires them to do so.

Danish banks stopped accepting cheques in 2017 and New Zealand's banks in 2021.

### Cheques out but cash remains king

While Australians have moved to digital payment methods, the Government has been careful to maintain cash as a payment method.

Around 1.5 million Australians use cash to make more than 80% of their in-person payments. Cash also provides an easily accessible back-up to digital payments in times of natural disaster or digital outage.

According to the most recent data, up to 94% of businesses continue to accept cash.

The Government has stated that they will mandate that businesses must accept cash when selling essential items, with appropriate exemptions for small businesses.

Currently, businesses don't have to accept cash – business can specify the terms and conditions that they will supply goods and services.

The issue of card surcharges often comes up when a business adds a surcharge rather than recognising this cost of doing business in their pricing. A business can charge a surcharge for paying by card, but the surcharge must not be more than what it costs the business to use that payment type.

# Tax deduction denied for signature basketball shoe R&D



## The Federal Court has denied a sports company's appeal to claim research & development incentives for the creation of an Australian signature basketball shoe.

The *Movie Air* highlighted the importance of the signature Air Jordan shoe to Nike. While expected to sell around \$3 million worth of shoes by its fourth year, the signature shoe eclipsed expectations raking in \$126 million in its first year. Nike sold 1.5 million in the first six weeks following clever marketing suggesting that the colourful shoes were in breach of the NBA regulations.

Nike's recent [fourth quarter results](#) to 31 May 2024 show the Jordan brand worth \$7 billion, and the bright spot in the company's results with a 6% sales gain.

In Australia, Peak Australia created the Delly1. Peak worked with Australian Olympian and NBA Champion, Matthew Dellavedova, on the final shoe design. Dellavedova has stated in interviews that he had, "...a whole lot of involvement with the shoe... I wanted a low-cut shoe that was light and close to the ground because I need to guard all these quick guards that are tough to defend over here [in the NBA]. They [Peak] did a great job with that, and as we went through the process of me testing it we just made minor adjustment."

But did the process undertaken to create the Delly1 meet the requirements to access research and development (R&D) concessions?

### Accessing R&D concessions

The R&D tax incentive program encourages research and development that companies might not otherwise undertake. The incentive offers a tax offset which is calculated with reference to qualifying R&D expenditure. The rate of the tax offset and whether it is refundable or non-refundable depends on the company's situation.

To access the incentive, R&D activities have to be "core" or "supporting."

Active Sports Management Pty Ltd lodged applications with Industry Innovation and Science Australia (IISA), to register activities relating to the development of a customised basketball shoe (Delly1) as "core R&D activities." A core activity is one that can't be determined in advance, can only be determined by systematic progression through scientific principles and experimentation, and is conducted for the purpose of generating new knowledge.

Unfortunately for Active Sports Management, the ATO, Administrative Appeals Tribunal, and now the Federal Court did not see the development of Delly1 as core R&D.

The claim was denied on the basis that the outcome did not appear to have technical or scientific uncertainty, just subjective views.

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