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Frequent Flyer Programmes and
Paying Business Tax Debts with your
Corporate or Personal Credit Card.

A recent development in Australian Taxation Office (ATO) payment processing is the introduction of a facility for individuals and businesses to pay their outstanding BAS and Income Tax debts via their credit card. The ATO hasn't widely advertised this initiative as it would likely generate significant negative media coverage with respect to "struggling families and business owners being forced to resort to credit cards to pay their tax debts". **Indeed credit card interest rates are often over 20% per annum compared to some 12% charged by the ATO.** Any strategy to use a credit card to pay a debt MUST therefore ensure that the card has an interest free period AND is paid out in full by the due date.

Assuming suitable cashflow and a credit card with a large enough limit, the sensible business owner has been given a golden opportunity to generate frequent flyer miles for paying ATO debts and to gain at least a further 30 day window to settle the debt via your credit card's interest free period.

The ATO does however charge a 0.65% fee for Visa/Mastercard and a 1.25% fee for American Express transactions.

The ATO has made it clear in its online content that should the BAS/Tax payment be made in the course of an income earning activity or furtherance of a business enterprise that the ATO credit surcharge may also be tax deductible. So not only could you generate frequent flyer miles but the credit card surcharge may also be tax deductible.

So what's the catch ?

The catch is that if you wish to claim a tax deduction for the surcharge you are indirectly declaring that the transaction was for business purposes. As such, a benefit derived from the transaction "may" be assessable.

There are a variety of ATO rulings and practice law statements in this area however in Payne VS FCT the Federal Court ruled that airline tickets redeemed through frequent flyer miles earned by an employee were not assessable to the employee and the employer was not subject to Fringe Benefits Tax.

Does this mean I don't have to worry ?

Yes and no !

In Practice Law Statement 2004/4 the ATO advised that they will not review those individuals earning less than 250,000 frequent flyer miles annually. So those taxpayers earning less than 250,000 frequent flyer miles annually shouldn't have to worry. For those taxpayers earning more than this amount annually it doesn't mean that they are at direct risk of a tax bill, but rather that they should review how these points are being accrued. Everyone's situation is different and if you have any concerns at all please contact us to discuss yours.

The ATO credit card payment facility can be located at:

<https://www.optusmartpay.com/governmenteasypay-ato/>

This advice is generic in nature and should not be relied on as specific tax advice for yourself. Prior to taking any financial or taxation decision please contact your adviser at Clark & Jacobs



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