



Cash bonus or no cash bonus. What are your Christmas tax time implications?

With Christmas rolling around, as an employer you might be looking for ways to reward your staff for their hard work and loyalty throughout the year. Especially for 2020!

You might be thinking of rewarding them with a gift, or you might think that they would prefer a cash gift. Whatever you do decide to give, it's best to understand your tax implications so you can make an informed decision.

Pro Tax Tip: Any cash bonus you give your staff will need to be reported as normal income to the ATO. It will need to be recorded through STP (single Touch Payroll), have PAYG withheld and superannuation paid so it is recorded for their end of financial year tax return.

Are Cash Bonuses Tax Deductible?

As a business, bonuses form part of your business costs and are tax deductible! While FBT and GST are not relevant to payment of cash bonuses, tax issues will arise for your employees.

Payroll Tax Implications

Paying your staff a Christmas cash bonus is treated by the ATO as wages or salary paid. Payroll tax is liable for these cash bonuses and it's a good idea to check your limits so you don't exceed your state's threshold.

Superannuation

It may be a good idea to talk to your staff about how they wish to receive their Christmas cash bonus. They are able to salary sacrifice their cash bonus into their superannuation funds, however this must be set up prior to the bonus being given to them for the work performed. This way, they will be taxed at a lower rate and boost their superannuation savings under a concessional (deductible) contribution as long as they don't exceed the \$25,000 per year contributions cap.

You should make sure that a written salary sacrifice arrangement is in place. Ideally, the agreement should be in place before they perform the work for which they are being paid a bonus for. As an example, an agreement may need to be in place prior to 1 January for a December payment.

As an employer, you'll need to pay the 9.5% superannuation guarantee of the cash bonus.

PAYG Implications

The ATO considered Christmas cash bonuses to be OTE (Ordinary Time Earnings). Paying your employees a Christmas cash bonus may drive them into a higher tax bracket and they won't be able to claim the extra tax they've paid until the end of the financial year and affect their Medicare levy surcharge.

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Cash bonuses for Christmas will need to be calculated manually as your software won't be able to detect the difference being a bonus and a weekly wage. It's important to let the ATO know that this is a once off payment as bonuses paid throughout the year are recorded differently.

To work out the tax your employee will need to add the cash bonus to their salary or wage for that pay period and work out the tax on the total amount for a once off payment.

Pro Tax Tip: Christmas cash bonuses and regular cash bonuses are reported differently on your STP payroll. Speak to an ITP Tax Accountant who can advise you're reporting your employees cash bonuses correctly.

Christmas cash bonuses form a part of your employees' taxable income and will need to be reported to the ATO correctly. How a bonus is taxed depends on your employees normal pay period. Cash bonuses are tax deductible for your business, but you will need to pay superannuation on the extra payments made to your employee. An ITP Tax Accountant will advise the best way for you to pay your employees a cash bonus should you need further advice.

ITP The Income Tax Professionals are more than tax agents. They have been helping Australian individuals and businesses with their business accounting and advice for 50 years and offer a wealth of knowledge. Speak to a Professional today and see how your business can be more profitable.



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