

Christmas Parties & Gifts

FBT and Entertainment

Under the FBT Act, employers must choose how they calculate their FBT entertainment liability and most use either the 'actual method' or the '50/50 method'.

Under the actual method, entertainment costs are normally split up between employees (and their family) and non-employees (e.g., clients and suppliers).

Expenditure on employees is deductible and liable to FBT. Expenditure on non-employees is **not** liable to FBT, and **not** tax deductible.

Using the 50/50 method instead?

Rather than apportion entertainment expenditure on the basis of actual attendance by staff, etc., many employers choose to use the more simple 50/50 method.

Under this method (irrespective of where the party is held or who attends) – 50% of the total expenditure is subject to FBT and 50% is tax deductible.

However, the following traps must be considered:

- even if the function is held on the employer's premises – food and drink provided to employees is not exempt from FBT;
- the minor benefit exemption* cannot apply; and
- the general taxi travel exemption (for travel to or from the employer's premises) cannot apply.

(* Minor benefit exemption

The minor benefit exemption provides an exemption from FBT for most benefits of 'less than \$300' which are provided to employees (and their family/associates) and which are infrequent and irregular.

The ATO accepts that different benefits provided at, or about, the same time (such as a Christmas party and gift) are **not** added together when applying this threshold.

However, entertainment expenditure that is FBT exempt is also not deductible.

And that's 'less than' \$300, i.e., no more than \$299.99. A \$300 gift to an employee will be caught for FBT, whereas a \$299 gift can be exempt.

Example: Christmas party

An employer holds a Christmas party for its employees and their spouses – 40 attendees in all.

The cost of food and drink per person is \$250, and no other benefits are provided.

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If the actual method is used:

- For all 40 employees and their spouses – **no FBT** is payable (i.e., applying the minor benefit exemption), however, the expenditure is **not tax deductible**.

If the 50/50 method is used:

- Expenditure is \$10,000 and 50% (i.e., \$5,000) **is liable to FBT** and **tax deductible**.

Christmas gifts

Gifts which **are not** considered to be entertainment

These generally include, for example, a Christmas hamper, a bottle of whisky or wine, gift vouchers, a bottle of perfume, flowers, a pen set, etc.

Briefly, the general FBT and income tax consequences for these gifts are as follows:

- gifts to employees and family members – **are liable to FBT** (except where the 'less than \$300' minor benefit exemption applies) and **tax deductible**; and
- gifts to clients, suppliers, etc. – **no FBT**, and **tax deductible**.

Gifts which **are** considered to be entertainment

These generally include, for example, tickets to attend a theatre, live play, sporting event, movie or the like, a holiday airline ticket, or an admission ticket to an amusement centre.

Briefly, the general FBT and income tax consequences for these gifts are as follows:

- gifts to employees and family members – **are liable to FBT** (except where the 'less than \$300' minor benefit exemption applies) and **tax deductible**; and
- gifts to clients, suppliers, etc. – **no FBT** and **not tax deductible**.

Non-entertainment gifts at functions

What if a Christmas party is held at a restaurant at a cost of less than \$300 for each person attending, and employees with spouses are given a gift or a gift voucher (for their spouse) to the value of \$150?

Under the actual method, for employees attending with their spouses – **no FBT** is payable because the cost of each separate benefit (including the gift) is less than \$300 (i.e., the benefits are not aggregated).

No deduction is allowed for the food and drink, but the gift is **tax deductible**.

Where the 50/50 method is adopted:

- 50% of the total cost of food and drink **is liable to FBT** and **tax deductible**; and
- the total cost of all gifts **is not liable to FBT** because the individual cost of each gift is less than \$300.

As the gifts are not entertainment, the cost is **tax deductible**.

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