

Tax Queries

Business claims – Entertainment & Gifting



This document is designed to help businesses understand common tax-related queries regarding what expenses they can and cannot claim.

It addresses specific situations such as meeting expenses, business-related gifts, and Christmas parties, offering practical guidance on deductibility and Fringe Benefits Tax (FBT) implications.

Whether you're unsure about entertainment expenses or the tax treatment of gifts to clients and employees, this guide aims to clarify the rules and provide straightforward answers for business owners and managers.

Understanding the Benefits

Minor Benefit Exemption

The minor benefit exemption allows certain fringe benefits to be exempt from Fringe Benefits Tax (FBT) if they meet specific criteria. To qualify, the benefit must:

1. **Be minor in value** – less than \$300 (inclusive of GST) per employee or associate.
2. **Be infrequent and irregular** – not provided frequently or as part of a regular pattern.
3. **Not be part of salary packaging** – the benefit cannot be in exchange for salary or wages.

This exemption commonly applies to small gifts like hampers or vouchers and certain modest entertainment expenses, such as a staff Christmas party. However, it does not apply to benefits considered entertainment, such as event tickets or meals, if they exceed the \$300 limit.

Fringe Benefits Tax (FBT)

Fringe Benefits Tax (FBT) is a tax on non-cash benefits provided to employees or their associates in place of, or in addition to, wages. It ensures that benefits like cars, entertainment, and gifts are taxed similarly to income. Australian businesses, not employees, are responsible for paying FBT.

FBT is calculated on the taxable value of benefits and is separate from income tax. Set annually by the Australian Taxation Office (ATO), businesses must lodge an FBT return.

Understanding FBT is essential, as it affects what can be claimed as a tax deduction. This guide will help you navigate its complexities for your business.

Meeting Expenses

Firstly, it's important to understand that not all expenses related to client meetings are deductible. The purpose of the expense matters, and if it is primarily for entertainment, it will likely not be deductible.

For example, if you take a client to a basketball game, and you spend most of the time watching the game instead of discussing business, it will be considered entertainment and not a deductible expense.

However, if the primary purpose of the expense is for business, such as discussing a project or negotiating a deal, it will likely be deductible. This applies even if the meeting takes place at a cafe or restaurant, as long as the food and drink are not excessive and reasonable for the circumstances.

Is the provision of food and drink (or a cup of coffee) a business deduction?

- What is the purpose of the expense? Is it just refreshment– then it isn't entertainment and it is likely to be deductible without FBT.
- Morning and afternoon teas and light meals are generally NOT entertainment.
- Food or drink provided during work time (maybe as part of a business meeting at a cafe) is less likely to be entertainment and, therefore, is likely to be a business deduction.
- Where and when, and in conjunction with what else is the expense incurred? If consumed at the place of business, then it is less likely to be entertainment. However, if consumed at a cafe or coffee shop, it becomes more likely to be entertainment. However, what else were you doing at the time?

Generally, there is NO tax deduction for the provision of entertainment. Call it marketing, call it a business meeting or whatever, but really, if it smells and feels like entertainment, then it is unlikely to be a business deduction.

Generally, a cup of coffee or morning tea at a cafe that really is just where you decided/needed to have your meeting with the client is more likely to be OK.

Especially if you are a home office-based provider or you don't have your own office at all.

The key aspect will be around, are you catching up for a chat and coffee, or is actual business being done? Going out for dinner or lunch with a client can sound like a great tax write off but if the business is not the main course and it's just a side chat, it's entertainment. If you take a client to a basketball game, and you talk about business for 5 minutes because you're actually there to watch the basketball, it's entertainment.



Gifting

Employees

If the gifts are for employees, the cost must be below \$300 per person. The gifts also need to be ad hoc, so splitting a \$2,000 gift voucher into 10 x \$200 vouchers and giving them to an employee at the end of each month won't fool the ATO.

If the gift is ad hoc and below \$300, the Tax Office considers it a minor benefit and, as such, exempt from FBT. Gifts above this level are deductible to the business, but FBT will apply.

Clients

If you give a gift to a client and expect the gift will either generate future business from the client or make them more inclined to refer others to her business, it's deductible.

However, if the gift was made for personal reasons or is of a private or domestic character, it's less likely to be deductible.

Gifting Scenarios: FBT, Tax Deductions and GST

Gift Scenario	For Employees and their Families	For Clients, Suppliers, Referral Partners etc.
Non-Entertainment Gifts Hampers, Wine or Spirits, Gift Vouchers, Flowers, Homewares etc.		
You gift a Food Hamper or Beauty Package valued at \$150pp (Inc. GST) at Christmas.	No FBT Claim tax deduction and GST credits.	No FBT Claim tax deduction and GST credits.
You gift a Department Store Voucher valued at \$500pp (Inc. GST) for a job well done.	FBT applies Claim tax deduction and GST credits.	No FBT Claim tax deduction and GST credits.
Entertainment Gifts Theatre or Movie Tickets, Sporting Events, Club memberships, Travel & Accommodation etc.		
You treat your team to a night at the movies and dinner valued at \$190pp (Inc. GST).	No FBT No tax deduction and No GST credits.	No FBT, No tax deduction and No GST credits.
You pay gym membership each month for staff and suppliers valued at \$600pp annually.	FBT applies, Claim tax deduction and GST credits.	No FBT, No tax deduction and No GST credits.

Christmas Party & Gifts

If you have a business, it's that time of year when you start thinking about Christmas parties and office celebrations. It's also time as a business owner to thank your employees for another year of hard work. But it's also worth knowing what you can claim and what you can't.

The rules can be confusing, so here are some suggestions on how to make the most of your corporate budgets this year.

There are two major things you'll spend money on around Christmas time at the office: the Christmas party and gifts for the employees.

That sounds simple enough, but there are quite a few ways you may or may not be charged Fringe Benefits Tax (FBT) by the tax department if you're not up to the rules.

Is a Christmas Party subject to FBT?

The simple answer is yes and no, as it depends on how and when you conduct the Christmas party.

Entertainment in many cases is subject to FBT and the ATO considers a Christmas Party to be 'entertainment'. But there are a few cases where the FBT is exempt.

Generally, if the Christmas party is held on a business day, at the work premise, and only employees attend, then it will be FBT exempt.

Another way to be free of FBT is for the cost of the food and drink consumed by the employees at the event to be less than \$300 per head. However, no tax deduction or GST input credit is claimable.

If the party is held off-site and you head to a restaurant or club, FBT is still not payable if the costs remain under \$300 per head, as this is also considered a minor benefit. Once the cost per head rises over the \$300 threshold, however, FBT is payable for employees and any family but not for clients attending.

Here are a couple of situations you might be in where the line is a little vague:

- If you hold a Christmas party on a working business day at your premises and both employees and their families attend, but the cost per head is only \$100, there is no FBT payable for families or friends. So, the minor benefits exemption applies, but no tax deduction.
- A Christmas party is held off-site at an expensive restaurant. Employees and their families attend, but the budget blows out to \$350 per head. In this case, FBT is payable in respect of the employees and their families as the minor benefits exemption will not apply, given that the benefit is more than \$300/head. The cost is an allowable tax deduction.

Entertainment Scenarios: FBT, Tax Deductions and GST

Scenario	Tax Implications
<p>You hold a small EOFY Party for your staff and their partners on the business premises.</p> <p>It costs you \$140pp.</p>	<p>Employees: No FBT as it is an exempt property benefit.</p> <p>Partners: No FBT as the cost is less than \$300pp.</p> <p>No tax deductions and No GST credits.</p>
<p>You hold a large party to celebrate New Year's Eve for your staff and their partners on the business premises.</p> <p>You invite your VIP Clients to attend</p> <p>It costs you \$350pp.</p>	<p>Employees: No FBT as it is an exempt property benefit.</p> <p>Partners: FBT applies as the cost is more than \$300pp (inc GST).</p> <p>No tax deductions and No GST credits.</p> <p>Clients: No FBT, no income tax deduction and no GST credits.</p>
<p>You celebrate Christmas by hosting a party for staff and their partners at an external venue.</p> <p>It costs you \$220pp.</p>	<p>No FBT as the cost is less than \$300pp (where minor benefits exemption applies).</p> <p>No tax deductions and no GST credits.</p>
<p>Your Christmas party just got a bit bigger and now includes clients as well as staff and their families.</p> <p>The cost has increased to \$350pp</p>	<p>Employees & Families: FBT applies as the cost is more than \$300pp (inc GST). Claim tax deductions and GST credits.</p> <p>Clients: No FBT, No income tax deduction and No GST credits.</p>
<p>You decide to have a smaller Christmas party with staff and their partners, but also provide a gift hamper.</p> <p>It costs you \$200pp for the party and \$150pp for the hamper*.</p>	<p>Party Costs: No FBT (where minor benefits exemption applies). No tax deductions and No GST credits.</p> <p>Hamper Costs: No FBT (where minor benefits exemption applies). Claim tax deductions and GST credits.</p>

* Non-entertainment benefits provided to employees at the Christmas party, such as a hamper, are considered separately when applying for the \$300 minor benefits exemption. Although the total cost per person is more than \$300, each benefit should be considered separately under the minor benefits exemption.

Are Christmas gifts for employees subject to FBT?

If you'd like to give your staff Christmas presents, the easiest way to avoid the tax is to make sure the gift is under \$300, including GST. This will be considered a minor benefit by the ATO. The gifts must not be considered entertainment. This means gifts cannot be something in the category of:

- Restaurant meals
- Holiday accommodation
- Tickets to movies
- Sporting events
- Concerts

Examples of non-entertainment gifts under \$300 that will qualify to be exempt from tax include:

- Hampers or gift baskets
- Department store vouchers and gift cards
- Skincare or beauty products
- Sealed bottles of alcohol
- Flowers

If your gift meets all these criteria, it is exempt from any Fringe Benefits Tax (FBT), and you can also claim a tax deduction for it, plus the GST input tax credit if you are registered for GST.

It's also good to be aware that you can't use these tax rules to gift yourself a present at Christmas. If you are a sole proprietor or a partner, you can't also be your own employee. These benefits are only for employees only.



Need more information?

If you would like to discuss this further or how it might impact you, call us at Finspective on **1300 319 377**.

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