

GIFTS AND ENTERTAINMENT



AVOIDING THE CHRISTMAS TAX TRAP

If you're setting the Christmas budget for your team and your customers, there are a couple of things you need to know to avoid the Christmas tax trap from ruining your celebrations.

WHAT IS ENTERTAINMENT?

It is important to understand what is and is not entertainment for tax purposes. In 1985, Treasurer Paul Keating abolished tax deductions for entertainment expenses - typically the provision of food, drink or recreation. Of course there are always exceptions, such as the expense of food and drink whilst travelling for business.

Here are some questions to ask yourself to help determine if the provision of food or drink is considered entertainment:

- **Where is it being provided?** If it is on business premises it is less likely to be considered entertainment, as opposed to a hotel or function facility;
- **What is being provided?** The more elaborate the meal the more likely it is entertainment;
- **When is it being provided?** If provided during working hours, it will be less likely to be considered entertainment, albeit a purely social function in working hours will continue to be entertainment;
- **Why is it being provided?** If it is during a social function, it will generally be considered entertainment, however if provided as sustenance whilst in a working environment it is less likely to be seen as entertainment.

Consider these questions in order to ascertain the tax treatment of entertainment expenses -

- Whether the expense is tax deductible?
- Is the expense subject to Fringe Benefits Tax (generally at the rate of 49%)?
- Will a Goods and Services Tax credit be available?



HOW ARE CHRISTMAS PARTIES TAXED?

Christmas parties hosted in connection with the operation of a business are:

- Generally considered to be entertainment expenses
- Not subject to Fringe Benefits Tax (FBT) and not tax deductible where they are provided for customers
- Subject to FBT if employees and their associates are entertained (many small business owners seek to avoid FBT by paying the cost out of their own pockets)

HOW ARE GIFTS TAXED?

Gifts made in connection with the operation of a business are:

- Generally tax deductible if provided to clients provided they are not considered entertainment (for example, theatre tickets)
- Generally subject to FBT rules where they are provided to employees or their associates (spouse or family)
- FBT exemptions apply to gifts that are considered infrequently where the value is less than \$300 on each occasion

STRATEGIES TO REDUCE CHRISTMAS TAX

- Consider rewarding employees with 'non-entertainment' gifts, such as store vouchers, wine and hampers, remembering to keep the value under \$300 for each gift.
- Keep an eye on the cost per employee for your Christmas function. By remaining below \$300 per team member the FBT imposed can be avoided, keeping in mind inviting family members along will increase the likelihood of breaching this threshold.
- Ensure your business expenses are recorded correctly throughout the year, as this enables you to optimise the tax deductibility of those expenses that are not considered entertainment!

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