

Christmas Parties & Gifts 2018

December 2018

Year-end (and other) staff parties

Editor: With the well earned December/January holiday season on the way, many employers will be planning to reward staff with a celebratory party or event. However, there are important issues to consider, including the possible FBT and income tax implications of providing 'entertainment' (including Christmas parties) to staff and clients.

FBT and 'entertainment'

Under the FBT Act, employers must choose how they calculate their FBT meal 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).

Such 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 meal 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) also cannot apply.

(*) Minor benefit exemption

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

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.

*Editor: And 'less than' \$300 means **no more than** \$299.99! A \$300 gift to an employee will be caught for FBT, whereas a \$299 gift may be exempt.*