

## Providing FBT-Free Staff Christmas Benefits

Tax planning strategies differ for SME's deemed to be a "small business entity" under the Tax Act. The application of fringe benefits tax ( FBT) means that it's more tax effective to provide staff with non-entertainment gifts (see below) at Christmas rather than hosting a party.

This article examines some of the most common benefits provided at Christmas and outlines the various income tax, GST and FBT implications. It is assumed that the business is not electing to use either the 50–50 split method or the 12 week register method for calculating the taxable value of meal entertainment expenditure.

### Christmas parties

Christmas parties constitute "entertainment benefits" and as such are subject to FBT unless specifically exempt, or the "minor benefits" exemption applies. A **minor benefit** is one that is provided to an employee or their associate (e.g. spouse) on an "infrequent" or "irregular" basis, which is not a reward for services, and the cost is **less than \$300** "per benefit" inclusive of GST.

#### (i) On-site christmas party

Holding the Christmas party **on the business premises** on a **working day** is usually the most tax effective. Expenses such as food and drink (including alcohol), are exempt from FBT for employees with no dollar limit, but no tax deduction or GST credit can be claimed. However, where employees' families (i.e. associates) also attend and the cost attributable to each associate is \$300 or more inclusive of GST, there is FBT on the associates portion of food and drink, and a tax deduction and GST credit can be claimed on that portion. The cost of clients attending the party are not subject to FBT, but no income tax deduction or GST credit can be claimed on their portion of the cost.

Where the Christmas party is held on the **business premises** on a **working day** with only employees and clients attending, and only finger food or a light meal and **no alcohol** is provided, then the entire cost is tax deductible. There is no FBT and a GST credit can be claimed on the entire cost.

#### (ii) Off-site christmas party

Christmas parties held **off the business premises** are exempt from FBT where the cost for the employee and their associate is each less than \$300 inclusive of GST but no tax deduction or GST credit can be claimed. The cost of clients attending the party are not subject to FBT, and no tax deduction or GST credit can be claimed on their portion of the cost.

Certain benefits provided to employees at the Christmas function are considered **separately** when applying the \$300 minor benefits exemption. For example, a Christmas party is held at a restaurant costing \$220 per head, and at the same time employees are provided with a Christmas hamper (considered a non entertainment gift), costing \$150. Although the total cost is more than \$300, the provision of both benefits will usually be exempt from FBT under the minor benefits exemption.

For the Christmas party expenses, the business will not be entitled to claim either a tax deduction or a GST credit. However, a tax deduction and GST credit claim should be available on the cost of the hamper as this is not considered to be "entertainment".

### Inviting the family

Employees can make the Christmas party a family affair. Not only will it be a more inclusive experience, the ATO says the \$300 minor benefits threshold applies per-attendee, not per-employee, which potentially means more FBT-free benefits.

## Gifts

### (i) Non-entertainment gifts

Non-entertainment gifts provided to employees are usually exempt from FBT where the total value is less than \$300 inclusive of GST. A tax deduction and GST credit can also be claimed. These include [skincare & beauty products](#), flowers, wine, perfumes, gift vouchers and hampers as mentioned above.

Given that the cost of hosting a Christmas party is not tax deductible (where the \$300.00 minor benefit exemption applies), it's more beneficial to instead provide staff with these tax deductible non-entertainment benefits.

There is an interesting twist with providing staff with say a case of beer or a bottle of wine which is consumed at the workplace or at a work social gathering. In this situation, the expense is treated as non-tax deductible entertainment. However if the employee consumes the alcohol at home, the cost is tax deductible up to the \$300.00 limit.

Non-entertainment gifts given to clients and suppliers do not fall within the FBT rules as they are not provided to employees. Generally a tax deduction and GST credit can be claimed for these gifts provided they are not excessive or overly valuable.

### (ii) Entertainment gifts

The provision of **entertainment gifts** has different tax implications (examples include theatre tickets, passes to attend a musical, live play, movie, tickets to a sporting event or providing a holiday). Where the cost for the employee and their associate is each less than \$300 GST inclusive, FBT is not payable, and no tax deduction or GST credit can be claimed.

However, if the cost for the employee and their associate is each \$300.00 or more GST inclusive, a tax deduction and GST credit can be claimed, but FBT is payable. The cost of any entertainment gifts provided to clients is not subject to FBT, and no tax deduction or GST credit can be claimed.

It is important that businesses maintain separate accounts in the general ledger for recording the above transactions to ensure that the correct income tax, GST and FBT treatment is applied.