



Financial FACT SHEET

Inspiring Performance

Meal Entertainment and Fringe Benefits Tax

Most small businesses provide benefits in the form of food and drink or other non-cash benefits to their employees and/or their associates and clients. This is commonly known as entertainment.

It's important to understand that the provision of entertainment is a benefit subject to Fringe Benefits Tax (FBT). Some entertainment costs are not tax-deductible and GST input tax credits cannot be claimed, depending on how the business values these benefits.

Examples of entertainment

Some common examples of situations where entertainment is provided include:

- » Christmas parties (see our Fact Sheet 'FBT—Christmas Functions and Gifts');
- » business lunches with clients;
- » birthday parties;
- » golf days;
- » farewell and special celebration functions;
- » memberships to clubs;
- » tickets to sporting events.

Meal Entertainment Food and Drink

In situations where food and drink is being provided, if it is provided mainly for refreshment, during business hours and on the business premises, it is less likely to be treated as entertainment. For example, a working lunch of sandwiches and orange juice would not be entertainment.

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As a rule of thumb, the more elaborate the function, the more likely it is that it will be treated as entertainment.

Valuing Entertainment Benefits

The Australian Taxation Office provides three methods that can be used by businesses to value and record their entertainment expenses:

1. Actual Method.
2. 50/50 Split Method.
3. 12 Week Register Method.

The most commonly-used methods are the Actual Method and the 50/50 Split Method.

Minor Benefit Exemption

This exemption may apply to certain entertainment benefits if:

- » the value of the benefit is less than \$300 (inc GST) per person;
- » the benefit provided is infrequent and irregular;
- » the benefit arises in relation to an unexpected event or annual celebration;
- » it would be unreasonable to treat the minor benefit as a Fringe Benefit.

This exemption can only be applied if your business is adopting the Actual Method of valuing meal entertainment benefits.

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Meal Entertainment and Fringe Benefits Tax

Actual Method

This method requires all entertainment benefits to be separated into the following categories:

- » Client entertainment (inc GST);
- » Staff entertainment;
- » Minor benefits less than \$300 (inc GST).

Only the meal entertainment provided to staff, and their associates, is subject to FBT. These costs will be tax deductible and you are able to claim the GST input tax credits.

Client entertainment is not tax-deductible and GST input tax credits cannot be claimed.

Minor benefits provided to staff and their associates are also not tax deductible and GST input tax credits cannot be claimed.

50/50 Split Method

The 50/50 Split Method is the easiest method to use. It takes the value of all meal entertainment provided (for staff, associates, clients and other persons), and treats 50% of the total as taxable entertainment.

Therefore a tax deduction will be available and GST input tax credits can be claimed on the 50% subject to FBT. The other 50% is not deductible and GST input tax credits cannot be claimed.

The Minor Benefit Exemption does not apply if you choose this method.

The best method for you

When determining the best meal entertainment valuation method for your business, you should consider the following factors:

- » who you provide entertainment to (staff, associates or clients);
- » how often you provide entertainment;
- » which method results in the lowest FBT liability; and
- » administration costs of each method for your business.

You should contact your Accountant at The Peak Partnership to determine which method is best for you and your business.

We can then assist in implementing a system to capture the relevant information to minimise your taxation liability.

Our supplementary 'Entertainment Expenses Guide' Fact Sheet also contains a simple overview of the the Actual Method and the 50/50 Split Method of valuing entertainment expenses.