

Financial FACT SHEET

Inspiring Performance

Fringe Benefits Tax Christmas Functions and Gifts

The potential Fringe Benefits Tax (FBT) consequences of your Christmas function can be confusing because of the different ways FBT can impact on different types of people, costs and situations. Whether you're likely to have an FBT liability depends on:

- » where and when you hold your function;
- » who attends; and
- » how much the function costs.

This Fact Sheet cannot cover all the possible scenarios, but here are some issues for you to consider.

Celebrating on-site

If you hold your event on a work day at your business premises and only your employees attend, costs such as food and drink are FBT-exempt, regardless of the cost per employee.

However, if your employees' associates (eg. family) and customers also attend, the FBT considerations become more complicated.

- » Expenditure on entertaining your employees' associates are taxable fringe benefits and you'll need to work out whether you have an FBT liability.
- » Expenditure on your customers may be totally exempt from FBT.

Note: Food and drink you provide to your customers is likely to be exempt from FBT whether at a social or business function, on or off your business premises.

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Celebrating off-site or not on a work day

If your function is not held on a work day or at your business premises (eg. at a local restaurant), there can be further FBT issues.

However, if you contain your costs to under \$300 per person for your employees and employees' associates, you may be able to reduce your FBT liability by relying on the minor benefit exemption. For example, the cost per person includes the cost of food and drink and other items like:

- » the cost of transport to venues; and
- » transport (eg. a taxi) home.

Gift giving

Give careful thought to how you give gifts to your employees at Christmas time:

- » If you present gifts to your employees at a function, the Australian Taxation Office (ATO) now consider them separately from the cost per person with regards to the function. You may be able to rely on the minor benefits exemption for a Christmas gift of less than \$300 in value, which is considered to be a separate benefit from the event itself.
- » If you don't hand out gifts at the function but at some other time, it's possible that you may still be able to rely on the minor benefit exemption at that time—if the value of each gift is less than \$300.

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Fringe Benefits Tax

Christmas Functions and Gifts

Gift giving (continued)

- » As an alternative, if the gifts are products you would normally sell to the public, there is another exemption of \$1,000 p.a. for each employee that may apply (an in-house exempt property benefit).

What is tax-deductible?

Generally the cost of providing a Christmas function is income tax-deductible only to the extent that it is subject to FBT. FBT itself is also income tax-deductible and is currently payable at a rate of 46.5% on the taxable amount of the benefits provided.

In working out what you can claim as a tax deduction, you will need to watch out for the following types of expenditure:

- » any costs that are exempt from FBT (eg. the exempt minor benefits and in-house exempt property benefits noted above cannot be claimed as an income tax deduction); and
- » the costs of entertaining customers are not subject to FBT and aren't deductible.

Can GST input tax credits be claimed?

Generally if the expense is subject to FBT and therefore deductible, then GST input tax credits can be claimed. However expenditure that is a minor benefit or for entertaining clients is not tax-deductible and therefore the input tax credits cannot be claimed. In these situations the input tax credit will form part of the expense.

Record Keeping

It's important to keep good records so that any potential FBT consequences can be identified. Records that should be kept include:

- » invoices (detailing amount including GST);
- » date the benefit was provided;
- » description of the entertainment (eg. drinks, dinner, gifts);
- » where the entertainment or benefit was provided; and
- » the number of employees, associates and customers that the benefit was provided to.

Note: We recommend that you record the provision of entertainment, including the Christmas function, in a separate expense account in your record keeping system so that it can be easily matched to the other records you have kept.

Contact The Peak Partnership

Feel free to contact us by:

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