

CHRISTMAS & BUSINESS FRINGE BENEFITS TAX

DON'T LET THE TAXMAN SPOIL YOUR BUSINESS CHRISTMAS CELEBRATIONS

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:

CELEBRATING ON BUSINESS PREMISES

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

However, if your employees' associates (eg. family) and customers attend, the FBT considerations are 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 FBT-exempt.

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.

OFF BUSINESS PREMISES OR ON A WEEKEND

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

However, if you contain your costs to under \$300 each (inc. GST) for your employees and employees' associates, you may be able to reduce your FBT liability by relying on the minor benefit exemption (only available if your business adopts the Actual Method to value meal entertainment benefits).

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.

CHRISTMAS FUNCTION HELD ON BUSINESS PREMISES

Only current employees attend

EMPLOYEES: There is no FBT implication as it is an exempt property benefit. There is no tax deduction and no GST claimable.

Current employees and their family attend at a cost of less than \$300 each

EMPLOYEES AND FAMILY: There is no FBT implication as the benefit is considered minor and infrequent. There is no tax deduction and no GST claimable.

Current employees, their family and clients attend at a cost of \$300 or more per person

EMPLOYEES: There is no FBT implication as it is an exempt property benefit. There is no tax deduction and no GST claimable.

FAMILY: A taxable fringe benefit arises where the value is \$300 or more per person.

CLIENTS: Considered entertainment however no FBT implication but no tax deduction either and no GST claimable.

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The Peak Partnership
CHARTERED ACCOUNTANTS



FRINGE BENEFITS TAX AND CHRISTMAS

CHRISTMAS FUNCTION HELD OFF BUSINESS PREMISES OR ON A WEEKEND

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Current employees, their family and clients attend at a cost of \$300 or more per person	CLIENTS: Considered entertainment however no FBT implication but no tax deduction either and no GST claimable. EMPLOYEES AND FAMILY: A taxable fringe benefit arises where the value is \$300 or more per person. A tax deduction and GST credit can be claimed CLIENTS: Considered entertainment however no FBT implication but no tax deduction either and no GST claimable.

CHRISTMAS GIFTS

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 Tax Office (ATO) now consider them separate to the cost per person for 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.
- 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 47% on the taxable amount of the benefits provided.

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. Your records should include:

- invoices (detailing amounts 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.

You should record the provision of entertainment, including the Christmas function, in a separate expense account so that it can be easily matched to the other records you have kept.

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