



e-News

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Newsletter No

What can your business claim during the festive season?



It's that festive time of year. Time to celebrate the end of another year and for many the first Christmas party following a couple of years' hiatus. With the right approach, it is possible to enjoy some tax benefits out of your celebrations, and also avoid Fringe Benefits Tax (FBT). But as always with tax, the landscape is

layered with complexity. The following is a general summary of the tax treatment of Christmas giving.

Minor Benefits

You may have heard the notion of minor benefits when it comes to employees and gifts or entertainment. Basically, the FBT legislation allows an FBT exemption for a benefit that is provided to an employee or one of their associates (eg spouse, partner) where the benefit is provided on an infrequent or irregular basis, which is not a reward for services and at a cost of less than \$300 (inclusive of GST) per benefit. While an FBT exemption may apply, it will depend on the type of benefit provided as to whether the cost is tax deductible. For example, entertainment is not tax deductible unless it is subject to FBT. Let's consider some examples below.

Gifts to Staff

Non-entertainment gifts to staff (such as Christmas hampers, bottles of alcohol, gift vouchers, gift sets, etc.), are tax deductible and you can claim GST credits, irrespective of the cost. Note however that you can generally avoid paying FBT if you keep the gift under \$300. If this threshold is exceeded, FBT will apply. Therefore, be conscious of this threshold when providing such gifts to staff this Christmas if you wish to avoid FBT. Entertainment gifts to staff (such as tickets to movies/theatre/amusement park/sporting events, holiday airline tickets, etc.) that are under \$300 will not attract FBT but are not income tax deductible, and you cannot claim GST credits. If over \$300, FBT will apply, but a tax deduction and GST credits can be claimed. With FBT rate sitting at 47%, the tax deduction and GST credits available are unlikely to provide a better tax outcome than avoiding FBT by keeping the gift under \$300.

Gifts to Clients/Customers/Contractors/ Suppliers

FBT only applies to employees and their associates (spouse, partner). Therefore, no FBT is payable, irrespective of the type or cost of a gift provided to a client or contractor. However, where a gift constitutes entertainment, no GST or tax deduction can be claimed. Thus, at least from a tax standpoint, it's better to provide nonentertainment gifts to clients (Christmas hampers, bottles of alcohol, gift vouchers, flowers) and, in doing so, enjoy a tax deduction and GST credits.

Christmas Parties

The old saying – you can't have your cake and eat it too rings true when considering the deductibility and FBT connotations of a Christmas party held for employees and their associates. Generally, Christmas parties constitute entertainment benefits and are generally not tax deductible unless the cost is subject to FBT. Where the total cost of a Christmas party is kept to under \$300 per person, an FBT exemption will generally apply (however no tax deduction or GST credit is able to be claimed). To enjoy this exemption the employer must use the Actual Method for valuing FBT meal entertainment. The Actual Method is the default method for valuing meal entertainment, and no formal ATO election is required to use this method. Under the Actual Method, an employer pays FBT (in the absence of an exemption) on all taxable meal entertainment provided to employees and their associates.

This Minor Benefit Exemption is not available if you elect to value your meal entertainment under the alternative 50/50 Method. Under this method, you pay FBT on only 50% of all taxable meal entertainment provided to employees, spouses, AND clients, contractors, customers, etc. irrespective of the cost. Likewise,

you can only claim a 50% income tax deduction and 50% GST credits on such meal entertainment. However as stated earlier, with the FBT rate now at 47%, the 50% tax deduction and 50% GST credits available under the 50/50 Method are unlikely to provide a better after-tax result than the Actual Method where no FBT is payable.

The “take-home message” is that if like many employers the only social function you host for employees during the year is a Christmas Party, be conscious of keeping the per-head cost under \$300. By doing so, you may be able to exempt the entire cost of the party from FBT.

(Information provided by Australian Bookkeepers' Network Business Bulletin Summer 2022 edition).

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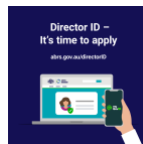
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