

Tax tips to stay “merry” this Christmas

With Christmas around the corner, you may be organising your annual year-end celebration, or gifts to employees and clients.

It is important that you recognise the FBT and other tax implications relating to Christmas entertainment. If you take advantage of the various FBT concessions and exemptions, it can make it tax-effective to provide entertainment over the festive season.

A \$1,000 recreational event could almost double that after FBT applies. However, if you do your homework and plan appropriately, you can minimise your FBT exposure.

While Christmas is usually a time of excessive spending and splurging, it pays to be wise with your money and consider the tax savings that can be made by following few simple points.

Year-end parties

Under the Tax Act, employers must choose how they calculate their FBT entertainment liability. Most use either the actual method or the 50/50 method.

Actual method

Under the actual method, entertainment is normally split between employees (and their family) and non-employees (e.g. clients and suppliers).

Expenditure on employees is liable to FBT and deductible. Expenditure on non-employees is not liable to FBT, and is not tax deductible.

Using the 50/50 method instead?

Rather than apportion entertainment expenditure between staff, associates and clients, many employers choose to use their simpler 50/50 method.

Under this method, where food and drink is provided (irrespective of where the party is held or who is attending), 50% of the total expenditure is subject to FBT and 50% is tax deductible.

However, the following traps must be considered:

- Even if the function is held on the employer's premises, food and drink provided to employees is not exempt from FBT;
- The minor benefit exemption* cannot apply; and
- The tax travel exemption cannot apply.

*The minor benefit exemption provides an exemption for FBT for benefits of less than \$300 which are provided to employees and their associates, and which are infrequent and irregular.

The ATO accepts that different benefits provided at (or about) the same time are not added together when applying the threshold.

This means that a Christmas party and gift may be exempt from FBT, even if provided at the same time, as long as the cost of each benefit is less than \$300. And that's LESS THAN \$300, i.e. no more than \$299.99. A gift of \$300 to an employee will be caught for FBT, whereas a gift of \$299 is exempt.

Example: FBT, tax and a Christmas party

An employer holds an external Christmas party for employees and their spouses. The cost of food and drink per person is \$280 and no other benefits are provided.

Using the actual method:

For employees attending on their own or with their spouse, no FBT is payable (i.e. the cost per head is less than \$300) and no tax deduction will be allowed.

Using the 50/50 method:

50% of the total expenditure is subject to FBT and is tax deductible.

Christmas and other gifts

In addition, many businesses will be considering what gifts, if any, they will provide to clients, suppliers, employees and possibly family members.

The following sets out the FBT and income tax consequences.

Gifts which are not considered to be entertainment

These generally include, for example:

- Christmas hampers, wine, chocolates etc.; and
- Gift vouchers, flowers, merchandise etc.

Briefly, the FBT and tax consequences for these gifts are:

- Gifts to employees and family members of less than \$300 - no FBT and tax deduction is allowed;
- Gifts to employees and family members of \$300 or more - FBT is payable and a tax deduction is allowed; and
- Gifts to clients and suppliers - no FBT and tax deduction is allowed.

Gifts which are considered to be entertainment

These generally include, for example:

- Tickets to attend a theatre, sporting event, movie etc; and
- A holiday airline ticket or admission ticket to an amusement centre

While we have simplified the general rules, we understand that it can get complicated. Please contact us on 08 9463 2463 if you would like more information.

Merry Christmas from the team at MGI Perth!

