

Year-end break-up parties

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The December/January break is on the way, and many employers and businesses will be planning their annual year-end break-up party.

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

Under the actual method, entertainment is normally split up between employees (and their family) and non-employees (e.g., clients/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 business clients, etc., many employers choose to use the 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 taxi travel exemption cannot apply.

(*) Minor benefit exemption

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

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



Where the FBT minor benefit is applied for a Christmas party you are NOT entitled to an income tax deduction nor GST input tax credit.

Basically, 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.

Christmas and other gifts

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

- a Christmas hamper, a bottle of whisky, wine, etc.; and
- gift vouchers, a bottle of perfume, flowers, a pen set, etc.

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

- gifts to employees and family members of less than \$300 - no FBT and a 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, suppliers, etc. - no FBT and a tax deduction is allowed.

Gifts which ARE considered to be entertainment

These generally include, for example:

- tickets to attend a theatre, live play, sporting event, movie or the like; and
- a holiday airline ticket or admission ticket to an amusement centre.

Briefly, the general FBT and income tax consequences for these gifts are as follows:

- gifts to employees and family members - FBT is payable and a tax deduction is allowed (except where the minor benefit exemption applies); and
- gifts to clients, suppliers, etc. - no FBT and no tax deduction.