

Christmas gifts

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

- ◆ gifts to employees and family members – FBT is payable (except where the less than \$300 minor benefit exemption applies) 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.

Non-entertainment gifts at functions

What if a Christmas party is held at a restaurant at a cost of less than \$300 for each person attending, and employees with spouses are given a gift or a gift voucher (for their spouse) to the value of \$150?

Under the actual method, for employees attending with their spouses – no FBT is payable because the cost of each separate benefit (including the gift) is less than \$300 (i.e., the benefits are not aggregated).

No deduction is allowed for the food and drink, but the gift is deductible.

Where the 50/50 method is adopted:

- ◆ 50% of the total cost of food and drink is subject to FBT and deductible; and
- ◆ the total cost of all gifts is not subject to FBT because the individual cost of each gift is less than \$300.

As the gifts are not entertainment, the cost is deductible.

Can I Claim a Tax Deduction for Taking Staff or Clients Out to Lunch?

One area that causes a lot of confusion for small businesses is whether the cost of meals (and coffees) with both potential and existing clients can be claimed as a tax deduction.

And what about staff lunches? Can you take staff out for lunch to discuss business and claim a deduction?

Expenses such as these are classified as **'Entertainment'** and are generally not tax deductible.

'Entertainment' expenses include business lunches and drinks, cocktail parties, sporting events, etc. Whether they are deductible must be reviewed on a case by case basis.

Factors influencing the deduction include:

- Why is the food/drink provided? – is it for refreshment or social?
- What food/drink is being provided? – is it a light meal or more elaborate meal? Is alcohol being provided?
- When is food/drink being provided? – is it during work time, overtime or after hours?
- Where is the food/drink provided – is it on business premises or off site at a function/restaurant?

Some common food and drink scenarios are listed below:

Type of Food & Drink	Deductible	Not Deductible
Birthday Cake consumed on Premises	×	
A light meal/drink consumed on premises while working overtime	×	
A light meal/drink consumed by an employee at a business networking meeting	×	
A business lunch at a café or restaurant		×
Food/drink consumed while an employee is travelling overnight on business for work purposes	×	
Food/drink consumed at an overnight business or work-related conference	×	
Light refreshments at a seminar	×	
Friday night drinks at the office		×



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Food/drink consumed at a social function held off the business premises		x
Food/drink consumed at an awards night		x
Clients Gifts (a bottle of wine or Christmas Hamper)	x	