



With the Christmas period fast approaching you as an employer may be considering what type of rewards to provide to employees for their efforts during the year. Given the complexity of the Fringe Benefit Tax (FBT) rules the question of the most tax effective way of giving also arises.

It is important to be aware that there are different income tax and FBT consequences based on the nature of the Christmas cheer, such as whether it is provided on the employer's premises or at a restaurant, hotel or other facility.

Please note where mentioned below, if **no tax deduction** is allowed for the expenditure then **no GST** input tax credits can be claimed. Conversely, where a tax deduction is available, GST input tax credits are generally available. All \$ amounts in this note are expressed on a **GST inclusive** basis.

GIFTS

Gifts generally fall into one of two categories, **entertainment** (eg: theatre tickets, sporting events) and **non-entertainment** (eg: hampers, flowers, wines, perfumes, gift vouchers). Where a gift is "entertainment", then no tax deduction is available unless FBT is applicable (in case of an employee). Conversely, where a gift is not entertainment, then subject to the discussion below, generally a tax deduction is available, whether the gift was to an employee or client.

1) Employees

Gifts provided to employees and their family members (associates) are generally **exempt from FBT** if provided **infrequently** and the **value is less than \$300**. It is important there is no pattern or regularity, and it is a **non cash** benefit which is provided. By way of example, a gift of a non-redeemable voucher or bottles of wine of **less than \$300** to an employee or their associate at Christmas or on a birthday would generally be **exempt from FBT**.

The \$300 threshold generally determines whether the FBT minor exemption applies. Provided the gift is **less than \$300**, it is generally FBT exempt. Whether a gift to an employee constitutes entertainment or not is important for the purpose of determining tax deductibility. Entertainment is not tax deductible, unless subject to FBT.

Example 1

An employee and his family are given a Christmas hamper to the value of \$290. This is the only gift given during the year. The gift is a minor benefit because the hamper is considered not to be the provision of entertainment (TD94/55). The cost is both tax deductible (non entertainment) and exempt from FBT (minor benefits exemption).

Example 2

An employer gives each employee a Christmas gift, which consists of a hamper worth \$180 and a \$150 non-entertainment gift voucher for the family. The total value of the gift is more than \$300, so the FBT minor benefit exemption does not apply. Both gifts are subject to FBT, though the employer can claim a tax deduction for the cost and any FBT paid, and claim input tax credits.

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Considered Value



2) Clients

Gifts to clients are never subject to FBT as there is no employment relationship. If the gift is non-entertainment in nature, then the cost is tax deductible provided the gift is not excessive or overly valuable. If the gift constitutes entertainment, it is non-deductible.

CHRISTMAS PARTIES

50/50 Meal Entertainment Method

The \$300 minor benefit threshold does not have any application using this method. Where you are using the 50/50 method for FBT purposes, the cost of a Christmas party will be considered entertainment with 50% being subject to FBT (and deductible) and 50% being non deductible. Accordingly, the information below will not apply in respect to Actual Records method.

Actual Records Method

Where you are using the actual records method which requires a per employee apportionment between employees and clients, the FBT rules depend on where the function is held.

1) Held off business premises

The costs associated with Christmas parties held off your business premises (for example, a restaurant) will give rise to a taxable fringe benefit for employees and their associates unless the benefits are exempt minor benefits.

Example	
Another company decides to hold its Christmas function at a restaurant on a working day before Christmas and provides meals, drinks and entertainment. The implications for the employer in this situation would be as follows.	
If...	Then...
current employees only attend at a cost of \$195 per head	- there are no FBT implications as the minor benefits exemption applies.* The cost of providing the entertainment is not income tax deductible and GST cannot be claimed.
current employees and their associates attend at a cost of \$180 per head	- there are no FBT implications as the minor benefits exemption applies.* The cost of providing the entertainment is not income tax deductible and GST cannot be claimed.
current employees, their associates and clients attend at a cost of \$365 per head	- for employees – a taxable fringe benefit will arise. Income tax deduction and GST can be claimed. - for associates – a taxable fringe benefit will arise. Income tax deduction and GST can be claimed. - for clients – there is no FBT payable. The cost of providing the entertainment is not income tax deductible and GST cannot be claimed.

* Where the benefits are indicated as qualifying for the minor benefits exemption, it is on the basis

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that the necessary conditions have been satisfied.

2) Held on the business premises

A Christmas party provided to current employees on your business premises or worksite on a working day may be an exempt benefit. The cost of associates attending the Christmas party is not exempt, unless it is a minor benefit.

Example	
A small manufacturing company decides to have a party on its business premises on a working day before Christmas. The company provides food, beer and wine. The implications for the employer in this situation would be as follows.	
If...	Then...
current employees only attend	- there are no FBT implications as it is an exempt property benefit. The cost of providing the entertainment is not income tax deductible and GST cannot be claimed.
current employees and their associates attend at a cost of \$180 per head	- for employees – there are no FBT implications as it is an exempt property benefit, and the minor benefit exemption could also apply.* The cost of providing the entertainment is not income tax deductible and GST cannot be claimed. - for associates – there are no FBT implications as the minor benefit exemption applies.* The cost of providing the entertainment is not income tax deductible and GST cannot be claimed.
current employees, their associates and some clients attend at a cost of \$365 per head	- for employees – there are no FBT implications as it is an exempt property benefit. The cost of providing the entertainment is not income tax deductible and GST cannot be claimed. - for associates – a taxable fringe benefit will arise as the value is equal to or more than \$300. The cost of providing the entertainment is income tax deductible and GST can be claimed. - for clients – there is no FBT. The cost of providing the entertainment is not income tax deductible and GST cannot be claimed.

* Where the benefits are indicated as qualifying for the minor benefits exemption, it is on the basis that the necessary conditions have been satisfied.

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