

### **FBT and Entertainment**

Under the FBT Act, employers must choose how they calculate their FBT entertainment liability and most use either the '50/50 method' or the "12 week register method".

Under the 12 week register method, the taxable value of the benefits is determined by reference to a 12 week register. The taxable value is the total meal entertainment expenditure incurred by the employer on all persons in the year multiplied by the register percentage (which is the total value of meal entertainment fringe benefits provided in the 12 week period divided by total value of meal entertainment provided in the 12 week period) The register percentage is deductible for income tax purposes.

Once a register has been kept it is good for the current year and subsequent four years unless meal entertainment expenses are more than 20% higher than those in the original calculation.

### **Using the 50/50 method instead?**

Rather than apportion entertainment expenditure on the basis of actual attendance by staff, etc., many employers choose to use the more simple 50/50 method.

Under this method (irrespective of where the party is held or who attends) – 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 general taxi travel exemption (for travel to or from the employer's premises) cannot apply.

### **(\*) *Minor benefit exemption***

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

The ATO accepts that different benefits provided at, or about, the same time (such as a Christmas party and gift) are **not** added together when applying this threshold.

However, entertainment expenditure that is FBT exempt is also not deductible.

*And that's 'less than' \$300, i.e., no more than \$299.99. A \$300 gift to an employee will be caught for FBT, whereas a \$299 gift can be exempt.*

## Gifts to Clients and Staff

### Gifts which **are not** considered to be entertainment

These generally include, for example, a Christmas hamper, a bottle of whisky or wine, 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 – **are liable to FBT** (except where the 'less than \$300' minor benefit exemption applies) and **tax deductible**; and
- gifts to clients, suppliers, etc. – **no FBT**, and **tax deductible**.

### 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, a holiday airline ticket, or an 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 – **are liable to FBT** (except where the 'less than \$300' minor benefit exemption applies) and **tax deductible**; and
- gifts to clients, suppliers, etc. – **no FBT** and **not tax deductible**.

### Non-entertainment gifts at functions

*Example: 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 minor benefit exemption, 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 **tax deductible**.

Where the 50/50 method is adopted:

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

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