



# Don't invite the tax man to your Christmas party!



**Christmas is just about here again, where does the year go!**

So you are busy organising your Christmas Party, maybe you're considering what gifts, if any, you might give to your clients and staff. Have you considered you may have to pay the tax man for providing Christmas cheer!

## **So you want to reward your staff with a gift.**

If you give a gift that is not included as part of the Christmas Party; categorised as a “**Non-entertainment gift**”; it is exempt from Fringe Benefits Tax (FBT) where the total value is less than \$300 inclusive of GST. It is also tax deductible and the GST credit can be claimed. These gifts could be hampers, gift vouchers, flowers and wine. The ATO has indicated that if these type of gifts are given to employees, e.g. two weeks before the actual Christmas party, then the gift and the Christmas function will be treated as separate benefits, meaning that the \$300 FBT exemption limit can be claimed twice.

What if you want to give your staff tickets to the theatre or a live concert, the movies or a short trip away, these are categorised as “**Entertainment Gifts**” and have different tax implications. If they are given as gifts to employees and family members and are over the value of \$300 FBT is payable and a tax deduction is allowed. Where the combined cost for employees/associates is less than \$300 GST inclusive, there is no FBT, no tax deduction is allowed and no GST credit can be claimed. The cost of any entertainment gifts provided to clients is not subject to FBT and no tax deduction, or GST credit can be claimed.

What about giving a gift to your clients and suppliers? These do not fall within the FBT regime, as they are not provided to employees. Generally a tax deduction and GST credit can be claimed for these gifts, provided they are not excessive or overly valuable.

## **What about the Christmas Party?**

Christmas parties are considered by the ATO to be “**entertainment benefits**” and will incur FBT unless specifically exempt or they fall under the “minor benefits” exemption. A minor benefit is provided to an employee/client on an infrequent or irregular basis and the cost is less than \$300 inclusive of GST per employee/client.

If you hold your Christmas party **on the business premises** on a working day this is usually the most tax effective. Expenses such as food and drink are exempt from FBT for “employees” with no dollar limit, but **no tax deduction or GST credit can be claimed.** If you extend this further and include employees’ families (i.e. associates) also attend and the combined cost for the employees and associates is \$300 or more inclusive of GST, there is FBT only on the associates’ portion of food and drink, and a tax deduction and GST credit can be claimed on that portion. The cost of clients attending the party are not subject to FBT, but no income tax deduction or GST credit can be claimed on their portion of the cost. If only employees and clients attend — with only finger food or a light meal and no alcohol — then the entire cost is tax deductible. There is no FBT and a GST credit can be claimed.

Should you be holding your Christmas party **off the business premises**, these would only be exempt from FBT if the cost per head for employees/associates is less than \$300 inclusive of GST (i.e. considered a minor benefit). If this is the case **no tax deduction or GST credit can be claimed.** Note that associates are not counted in the “per head” calculation, meaning that the \$300 FBT minor benefits exemption applies to the combined cost of the employee and any associates who also attend the function. Therefore, if the combined cost for employees/associates is \$300 or more, GST inclusive, there is FBT on the combined cost — but a tax deduction and GST credit can be claimed on that portion. The cost of clients attending the party are not subject to FBT, but no income tax deduction or GST credit can be claimed on their portion of the cost.