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THE BUSINESS NEWSLETTER FROM AUSWILD & CO
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CHRISTMAS AND THE TAXMAN

It's that time of the year again! With Christmas only weeks away, most people's thoughts are turning towards good cheer, parties and presents – and if you are planning a lavish Christmas party, you must contend with an FBT minefield and a 16-year-old spending limit unless it is held on your business premises, within working hours and involves only your current employees.

So, are Christmas gifts and the company Christmas party tax deductible? And are you able to claim the GST on the expenses incurred?

In a festive message ahead of the party season, the ATO has reminded party planners that the FBT minor benefit exemption of \$300 applies outside a narrow range of strict conditions. The ATO guidelines are very clear and specific.

Entertainment provided to an employee or an associate of an employee may be subject to Fringe Benefits Tax. Depending on the circumstances the business may or may not be able to claim an income tax deduction for the cost of the entertainment or any FBT liability. Entertainment provided to customers or clients are neither tax deductible or subject to FBT.

However, there is some good news! The minor fringe benefits threshold of \$300 applies to each benefit provided – not to the total value of all associated benefits.

Employee Gifts

As a general rule, any gifts provided to an employee or an associate of the employee (i.e. family members) give rise to an FBT liability in the hands of the employer. However, minor benefits are exempt from FBT if provided infrequently and irregularly, and the value of the benefit is less than \$300.

So, if you give each employee a Christmas Hamper worth \$285 and that is the only gift given during the year, it is considered to be a minor benefit. Its cost will be tax deductible, there will be no FBT liability and you can also claim the GST incurred.

Customer Gifts

What about gifts to your customers? To thank your valued customers for their contribution to your bottom line this year, you decide to give each of them two bottles of a very special commemorative port worth \$299. This gift is not subject to FBT and is fully tax deductible to you. Your customers will also not be taxed on the value of the gift.

The cost of gifts such as calendars, paperweights, polo shirts, coffee mugs with your logo imprinted are not only tax deductible but they are also a great marketing and promotional tool. These are fairly inexpensive and they remind your customers of you and your business long after the festive season has ended.

Christmas Parties

If you hold a party (providing food and alcohol) for all your employees at your business premises on a working day before Christmas there is no FBT liability and you cannot claim a tax deduction for the cost of the party.

If this party is also attended by your employees' spouses (or associates) and the cost per head is less than \$300, there are no FBT implications.

However, because you have had a great year financially, you decide to host a party for your employees at your favourite restaurant. You have been quoted a cost of \$145 per head for food and drink by the restaurant. As the cost is below \$300, there is no FBT liability. This qualifies as a minor benefit. If your employees bring their spouses along, then the total value of the benefit is \$290. There is still no FBT liability as the minor benefits exemption applies.

However if the cost is equal to or exceeds \$300 per head a taxable fringe benefit will arise for each spouse or associate attending.

For every customer attending the party, no FBT is applicable and no tax deduction is allowable. This applies irrespective of the cost per head and whether the party is held at your premises or away from your premises.

Summary

- If you give gifts to your employees keep them under \$300 each.
- Give gifts to employees that they otherwise would have claimed as a tax deduction. For example, you could pay for a professional development course or give new tools.
- Give gift cards or vouchers with a value of less than \$300. (Vouchers are not considered to be entertainment).
- Avoid giving 'entertainment' gifts of \$300 and above, such as memberships to clubs, tickets to events or travel.
- Pay a Christmas bonus. Process through payroll like any other wage payment and withhold tax. Remember that superannuation applies to bonus wages.
- Ensure the cost per head for your Christmas party is less than \$300.

Warning!

If you have made an election to use the 50/50 split method to calculate the FBT liability for meal entertainment benefits, you are NOT entitled to use the minor benefit exemption! You must aggregate ALL meal entertainment expenses (including the cost of the Christmas party) regardless of whether or not it is subject to FBT. A tax deduction is then allowed for 50% of that expenditure and FBT will be payable on the other 50%. *Do your calculations as this may result in higher FBT being payable.*

And a final word of warning from the ATO to celebrating businesses – regardless of guests, venue or cost per head, ensure you keep records of all spending for the post-Christmas tax hangover.