

FBT and Christmas Benefits

As the festive season approaches and employers prepare for the traditional end of year celebration, benefits such as meals, gifts and entertainment may be provided to staff. The provision of such benefits may have fringe benefits tax (FBT) and income tax implications.

Benefits commonly provided

The benefits which are most commonly provided by employers to staff (and/ or their associates) at Christmas time are likely to include:

- meal entertainment – meals and alcohol provided at a function with the possibility of ancillary entertainment (whether on or away from the employer's premises)
- the provision of a function venue
- gifts (eg. Hampers or alcohol), and
- travel and taxi fares (eg. to and from the function venue).

Exempt property benefits

The costs (such as food and drink) associated with Christmas parties are exempt from FBT if they are **provided on a working day on your business premises and consumed by current employees**. A taxable fringe benefit will arise in respect of an associate of an employee who attends the party if not otherwise exempt under the minor benefits exemption.

Gifts provided to employees at a Christmas party

The provision of a gift to an employee at Christmas time may be a minor benefit that is an exempt benefit where the value of the gift is less than \$300 (GST inclusive).

Where a Christmas gift is provided to an employee at a Christmas party that is also provided by the employer, the benefits are associated benefits, but each benefit needs to be considered separately to determine if they are less than \$300 in value. If both the Christmas party and the gift are less than \$300 in value and the benefit is provided on an infrequent and irregular basis, they will both be exempt from FBT.

It is also necessary to consider whether, during the year, other benefits have been provided to the employee which are 'identical or similar', as this may mean the infrequent and irregular basis is not passed.

Tax deductibility of a Christmas party

The cost of providing a Christmas party is income tax deductible only to the extent that it is subject to FBT. Therefore, any costs that are exempt from FBT (that is, exempt minor benefits and exempt property benefits) cannot be claimed as an income tax deduction.

The costs of entertaining clients are not subject to FBT and are not income tax deductible.

See our examples – next page>>

Christmas party 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.	<ul style="list-style-type: none"> There are no FBT implications as it is an exempt property benefit.
Current employees and their associates attend at a cost of \$180 per head.	<ul style="list-style-type: none"> For employees - there are no FBT implications as it is an exempt property benefit, and the minor benefit exemption could also apply* For associates - there are no FBT implications as the minor benefit exemption applies.*
Current employees, their associates and some clients attend at a cost of \$365 per head.	<ul style="list-style-type: none"> For employees - there are no FBT implications as it is an exempt property benefit For associates - a taxable fringe benefit will arise as the value is equal to or more than \$300 For clients - there is no FBT payable and no income tax deduction.

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

Christmas party 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.	<ul style="list-style-type: none"> There are no FBT implications as the minor benefits exemption applies.*
Current employees and their associates attend at a cost of \$180 per head.	<ul style="list-style-type: none"> There are no FBT implications as the minor benefits exemption applies.*
Current employees, their associates and some clients attend at a cost of \$365 per head.	<ul style="list-style-type: none"> For employees - a taxable fringe benefit will arise For associates - a taxable fringe benefit will arise, and For clients - there is no FBT payable and the cost of providing the entertainment is not income tax deductible.

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