



MCA (QLD) Accountants Pty Ltd  
ABN 38 142 374 883  
**Director:** Anthony Micalizzi CA  
**Director:** Taneile White CA

Unit 2, 273 Abbotsford Road,  
Bowen Hills Q 4006

PO Box 163  
Hamilton Q 4007

**Phone:** 07 3252 9477

**Fax:** 07 3252 9677

**Email:** reception@mcaqld.com.au

# Christmas Parties & Gifts 2018

Please read this update  
and contact this office  
if you have any queries

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## Year-end (and other) staff parties

*Editor: With the well earned December/January holiday season on the way, many employers will be planning to reward staff with a celebratory party or event. However, there are important issues to consider, including the possible FBT and income tax implications of providing 'entertainment' (including Christmas parties) to staff and clients.*

### FBT and 'entertainment'

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

Under the **actual method**, entertainment costs are normally split up between employees (and their family) and non-employees (e.g., clients and suppliers).

Such expenditure on employees is deductible and liable to FBT. Expenditure on non-employees is **not** liable to FBT and **not** tax deductible.

### Using the 50/50 method instead?

Rather than apportion meal 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 tax travel exemption (for travel to or from the employer's premises) also cannot apply.

### (\* Minor benefit exemption)

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

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.

*Editor: And 'less than' \$300 means **no more than \$299.99!** A \$300 gift to an employee will be caught for FBT, whereas a \$299 gift may be exempt.*

### Example: Christmas Party

An employer holds a Christmas party for its employees and their spouses – 40 attendees in all.

The cost of food and drink per person is \$250 and no other benefits are provided.

### If the actual method is used:

- ◆ For all 40 employees and their spouses – **no FBT** is payable (i.e., by applying the minor benefit exemption), however, the party expenditure is **not tax deductible**.

### If the 50/50 method is used:

- ◆ The expenditure is \$10,000, so \$5,000 (i.e., 50%) **is liable to FBT** and **tax deductible**.

## Christmas gifts

*Editor: With the holiday season approaching, many employers and businesses want to reward their staff and loyal clients/customers/suppliers.*

*Again, it is important to understand how gifts to staff and clients, etc., are handled 'tax-wise'.*

### Gifts that 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 their 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 that are considered to be entertainment

These generally include, for example, tickets to attend the theatre, a 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 their family members – **are liable to FBT** (except where the 'less than \$300' minor benefit exemption applies) and **tax deductible** (unless they are exempt from FBT); and

- gifts to clients, suppliers, etc. – **no FBT** and **not tax deductible**.

### Non-entertainment gifts at functions

*Editor: 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?*

#### **Actual method used for meal entertainment**

Under the actual method, for employees attending with their spouses, **no FBT** is payable, because the cost of each separate benefit (being the expenditure on both the Christmas party and the gift) is less than \$300 (i.e., the benefits are not aggregated).

No deduction is allowed for the food and drink expenditure, but the cost of each gift is **tax deductible**.

#### **50/50 method used for meal entertainment**

Where the 50/50 method is adopted:

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

*Editor: We understand that this can all be somewhat bewildering, so if you would like a little help, just contact our office.*