

is your Christmas party creating a tax debt ?

A company Christmas party is a great way to thank staff for their help throughout the year. But it is important to understand that parties and gifts may have FBT (Fringe Benefits Tax) implications for your business.

Parties and gifts are classed as “entertainment benefits” and are subject to FBT and certain tax deductions unless you are using the 50/50 split or 12 week register method for calculating the taxable value of meal entertainment expenditure.

The most tax-effective Christmas party

Generally, the most tax effective way to hold a Christmas party is to run it on your business premises on a working day with only staff and clients attending. If you serve only a light meal or nibbles and no alcohol, then the entire cost is tax deductible and no FBT will be charged.

Clients who attend the party are not subject at all to FBT at a party of this kind, but no deductions or GST credit can be claimed on their costs.

If you wish to invite your staff’s families (i.e. associates), there may be FBT (and a tax deduction) on their portion of food and drink if the combined cost for each employee and associate is over \$100.

Christmas parties held away from the business premises

Christmas parties held offsite are a little more complicated. They are only exempt from FBT where the combined cost of each employee and their “associates” is less than \$100 inclusive of GST.

If the combined cost for staff members and their associates is more than \$100 inclusive of GST, FBT will be chargeable on the combined cost. On the other hand, a tax deduction and GST credit can also be claimed on that portion.

Clients who attend an offsite party are again not subject to FBT, but no deductions can be claimed on their costs.

Grouping costs and adding entertainment and gifts

If your Christmas party includes entertainment such as a DJ or band hired on top of the venue, then the FBT threshold increases to \$125 (inclusive of GST) per employee and their associates.

Gifts such as bottles of wine and Christmas hampers that are given at the party must also be added to the total cost per employee and their associates.

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You should group all costs to work out whether the FBT threshold has been exceeded. For example, if a party is held at a restaurant at \$60 per head and a gift hamper worth \$50 is given to each employee, then the \$100 minor benefits threshold will be exceeded and a tax deduction and GST credit can be claimed – but FBT is also payable on the two benefits.

If you wish to provide gifts of flowers, wine, perfumes, gift vouchers and hampers to your staff, you may want to consider giving a present of less than \$100 inclusive of GST two weeks before or after the Christmas party. This way, the ATO will treat them as a separate benefit and apply the \$100 minor benefits threshold again.

Gifts of this kind for clients and supplies are not liable for FBT as they are not for your employees. They can generally be claimed as a tax deduction or GST credit.

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