

CHRISTMAS FUNCTIONS – MAKING SURE TAX DOESN'T RUIN THE PARTY!



MAXIM
— ADVISORY —

With the festive season almost upon us, many of us are now planning the annual Christmas parties and gifts. However, the ATO can add a nasty tax surprise to your Christmas party and gifts if not structured correctly.

Did you know?

Your staff Christmas party may attract costly Fringe Benefits Tax (“FBT”) at a rate of 47%. This means that a function estimated to cost you \$10,000 GST exclusive may actually cost you up to \$19,777 once you factor in FBT!!

What is FBT?

Employers pay FBT at a rate of 47% on the grossed up value of certain non-cash benefits (“fringe benefits”) that are supplied to their staff or associates. This includes past, future and current employees and their spouses and children. That is, the employee is not taxed on this as a salary, but the employer is.

However, sometimes these non-cash benefits are exempted from costly FBT. The aim is to structure your staff Christmas parties and gifts so that they fall under one of these exemptions. This is where Maxim can help you.

Income Tax, FBT and GST Interaction

Generally speaking,

- If you pay FBT on staff Christmas function and associated costs, you will be able to claim a tax deduction and claim GST on the costs.
- If you do not pay FBT (i.e. the cost is FBT exempt), then you will not be able to claim either GST or a tax deduction for the cost.
- There are some differences depending on whether or not the staff benefits provided are considered to be entertainment or not.

Common Christmas FBT Exemptions

There is no specific exemption relating to a Christmas party although the following general exemptions are usually the most applicable.

- **Minor and infrequent benefit** – this applies if the total benefit to any employee or related person is irregular AND less than \$300. Please note that the actual method of apportionment between clients and employees must be used for this exemption to apply.
- **Exempt property benefit** – applies where all Christmas party food and drink is consumed by a current employee during a business day (i.e. NOT outside of business hours)
- **Exempt transport benefits** – applies where a current employee’s employer pays for a current employee’s taxi ride home from a Christmas Party held at the employer’s premises.

What if I invite clients/customers?

FBT only applies to employees. This means that inviting customers or contractors to your Christmas Party does not attract any FBT. However, whilst there will not be any FBT, you need to be aware that

- Food and drink provided at a party for clients will not generally be tax deductible nor can you claim GST.
- Providing entertainment gifts (e.g. movie tickets etc.) will not be tax deductible nor can you claim GST.
- You can claim a tax deduction and GST for non-entertainment gifts (e.g. hampers, bottles of wine etc.).

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The summary below provides a general guide as to FBT, income tax and GST rules surrounding some common Christmas costs for staff and clients.

What is being provided?	Christmas party held on employer's premises on a business day	Christmas party NOT held on employer's premises on any day (more common)
 <p>Food and Drink</p>	<p>Client</p> <p>No FBT, no income tax deduction and no GST claimable.</p> <p>Employee</p> <p>Exempt from FBT</p> <p>Employee Spouse</p> <p>If < \$300 = minor benefit If > \$300 = taxable FBT benefit</p>	<p>Client</p> <p>No FBT, no income tax deduction and no GST claimable.</p> <p>Employee</p> <p>If < \$300 = minor benefit If > \$300 = taxable FBT benefit</p> <p>Employee Spouse</p> <p>If < \$300 = minor benefit If > \$300 = taxable FBT benefit</p>
 <p>Entertainment Gifts</p>	<p>Client</p> <p>No FBT, no income tax deduction and no GST claimable.</p> <p>Employee</p> <p>If < \$300 = minor benefit If > \$300 = taxable FBT benefit</p> <p>Employee Spouse</p> <p>If < \$300 = minor benefit If > \$300 = taxable FBT benefit</p>	<p>Client</p> <p>No FBT, no income tax deduction and no GST claimable.</p> <p>Employee</p> <p>If < \$300 = minor benefit If > \$300 = taxable FBT benefit</p> <p>Employee Spouse</p> <p>If < \$300 = minor benefit If > \$300 = taxable FBT benefit</p>
 <p>Non-entertainment Gift (e.g. hamper)</p>	<p>Client</p> <p>No FBT but can claim income tax deduction and GST credits.</p> <p>Employee</p> <p>If < \$300 = minor benefit If > \$300 = taxable FBT benefit</p> <p>Employee Spouse</p> <p>If < \$300 = minor benefit If > \$300 = taxable FBT benefit</p>	<p>Client</p> <p>No FBT, no income tax deduction and no GST claimable.</p> <p>Employee</p> <p>If < \$300 = minor benefit If > \$300 = taxable FBT benefit</p> <p>Employee Spouse</p> <p>If < \$300 = minor benefit If > \$300 = taxable FBT benefit</p>

If you would like more information, feel free to contact either Gino Terriaca, Tony Cassetta or Silvia Caratti of Maxim Advisory on (08) 9489 2555.

Please note that this is general information only and professional advice should be obtained before acting on any information contained herein.