

DON'T LET TAX TAKE THE FUN OUT OF YOUR ENTERTAINMENT



Providing entertainment to our clients and staff is often considered a key part of doing business. However, providing entertainment is usually not considered deductible and can potentially bring with it unintended Fringe Benefits Tax costs. The key is to plan your entertainment to maximize any tax benefits available.

What is Entertainment?

Generally speaking, entertainment is NOT deductible. This is regardless of whether or not business is discussed. Entertainment is defined broadly to include

- Entertainment involving food, drink or recreation or
- Accommodation or travel connected with providing the entertainment

Assessing whether something is entertainment requires consideration of

Why is the cost being provided?	Is it to entertain or as a necessity eg meal while travelling?
What is being provided?	Is it room service in a motel room or an elaborate restaurant meal?
When is it being provided?	After or during business hours.
Where is it being provided?	On business premises or outside.

Common Exemptions

There are some limited circumstances where entertainment is considered deductible including:

- Where you carry on a business of providing entertainment eg hotels
- Promotions offered to the public
- Certain Meal Entertainment whilst Travelling
- Eligible seminar of at least 4 hours
- Charitable entertainment to the sick
- In-house dining facility

- Entertainment for which Fringe Benefits Tax ("FBT") has been paid

Providing Client Entertainment

Entertainment provided to clients and non-staff members is generally non-deductible, not subject to FBT and cannot have GST claimed.

Providing Entertainment to Staff

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. That is, the employee is not taxed on this as a salary, but the employer is.

This can be very expensive. Consider a staff function estimated to cost you \$10,000 GST exclusive. This may actually cost you up to \$19,777 once you factor in FBT!!

However, there are some exemptions available for FBT. The most common one is the **Minor and infrequent exemption** which applies if the total benefit to you and your associates is irregular AND less than \$300

Allocating Staff/Client Entertainment

Often, entertainment is provided to staff and clients at the same time so there needs to be a way of allocating the costs to each person. There are several methods available to do this including

- **50/50 method** - where 50% of the cost is deemed to be for clients and the rest for staff. Please note that the minor and infrequent exemption is not available if this method is used.

- **Actual method** – where each cost is individually split

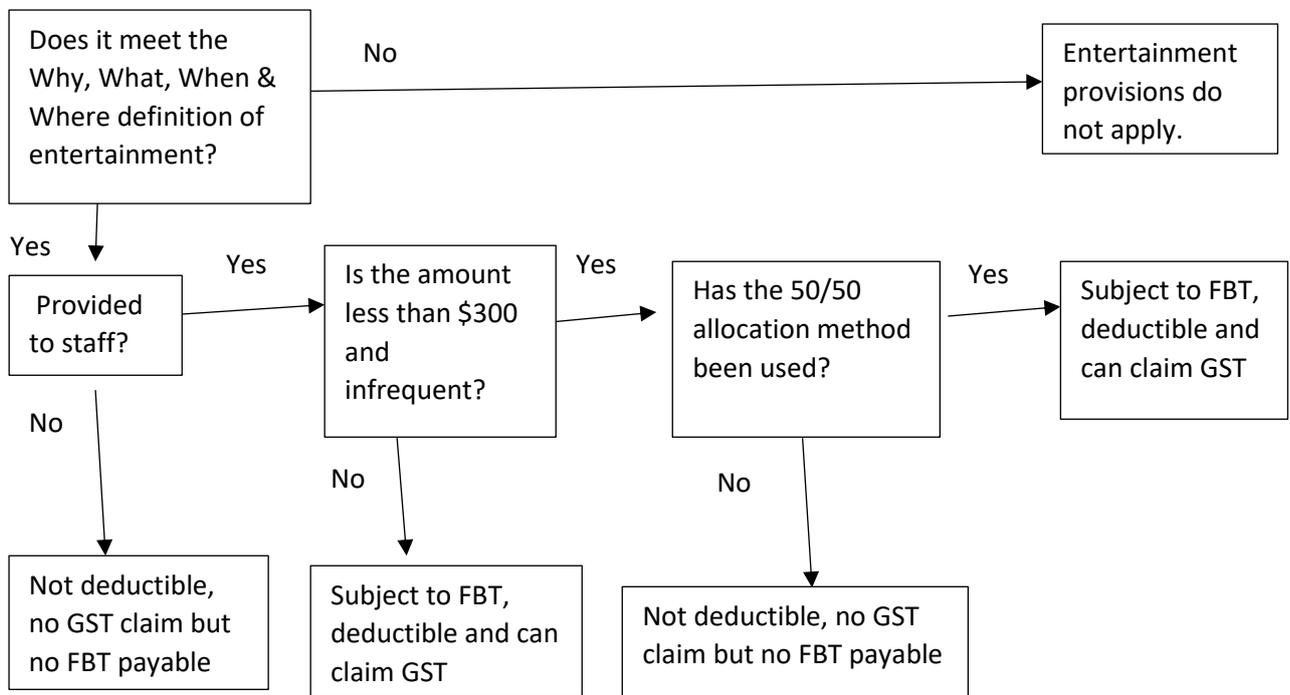
Income Tax, FBT and GST Interaction

- If you pay FBT on entertainment, you will be able to get a tax deduction and claim GST on the costs.
- If FBT is not paid on entertainment (ie it is FBT exempt), then you will not be able to claim either GST or a tax deduction.
- There are some differences depending on whether or not the staff benefits provided are considered to be entertainment or not.

Common Examples

- **Company director taking clients out to lunch at a cost of \$250** –The client portion of the lunch would be non-deductible with no FBT or any GST claim. The remaining staff portion

The summary below provides a summary of the tax treatment for entertainment.



If you would like more information, then feel free to contact either Gino Terriaca, Tony Cassetai or Silvia Caratti of Maxim Private 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.

would be considered a minor and infrequent benefit (assuming such client lunches don't occur regularly and the 50/50 method is not used) and therefore is non-deductible with no GST claim but not subject to FBT.

- **Eagles Corporate Box** - Any client portion is non-deductible entertainment whilst the portion used by staff is subject to FBT, deductible with GST able to be claimed.
- **Provision of bottle of wine to staff** – This is not considered entertainment but would be a minor benefit so would be exempt from FBT, deductible and able to make a GST claim.

Providing Tax Effective Entertainment?

Maxim can assist you to structure your entertainment so that you maximize the tax effectiveness.