



Three wise FBT tips for Christmas



Employers know that popping a champagne cork or three to celebrate the festive season lets staff know their efforts are appreciated, but the well-prepared business owner will also know that a little tax planning can help ensure that it's not the business that ends up with the FBT hangover.

Three benefits generally provided for the festive season, rather than gold, frankincense and myrrh, typically include:

- entertainment (that is, a Christmas party)
- gifts to employees, (and even their family),
- cash bonuses.

Entertainment



Remember, there is no separate FBT category that relates to Christmas parties. Any social function may result in FBT, so the provision of "entertainment" at Christmas therefore mirrors the tax treatment such benefits will receive at other times of the year.

The ATO says that "meal entertainment", and therefore an FBT liability, can generally be said to arise when food or drink is provided. There can be exceptions, such as when morning and afternoon tea are supplied on a working day, or finger food is put out at a "working lunch". Note however that providing any alcohol while not on the business premises

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automatically slaps a big “entertainment” label on an event.

The implications of certain benefits provided at the year-end Christmas function for an employer may vary depending on:

- whether the function is provided at the employer’s premises or provided externally
- the cost of the function per attendee, and
- the basis that the employer is using in working out the taxable value of such benefits.

FBT implications



With a Christmas party, FBT applies to an employer when they provide a benefit to an employee or their associate (for example, family members). Food, drink, entertainment and gifts provided at a Christmas party to employees and their associates may constitute either:

- i. an expense payment fringe benefit (eg. reimbursing an employee for expenses incurred or paying an expense on their behalf)
- ii. a property fringe benefit (eg. provision of property such as meals or gifts by the employer), and
- iii. a residual fringe benefit (eg. the provision of any right, privilege, service or facility such as the right to use a venue).

These benefits are generally valued for FBT purposes at their face value – typically referred to as an “actual basis” of valuation. However, an employer may elect to apply special valuation rules by using either the 50/50 split method or 12-week register method. Ask us about these two valuation methods and if they are suitable for your business. If the employer does not make an election, the taxable value is determined according to actual expenditure.

However, “meal entertainment” fringe benefits provided at a Christmas function can be exempt from FBT if it is:

- a “minor benefit” (more below)
- an exempt property benefit (see below) is provided at the employer’s premises on a work day.

Minor Benefits



Broadly, a minor benefit is one where it:

- has a notional taxable value of less than \$300 (inclusive of GST)
- is provided on an “infrequent” or “irregular” basis
- is not a reward for services, and
- satisfies other relevant conditions (ask us for details).

Note that other benefits (such as gifts) provided at a Christmas party may be considered as separate minor benefits in addition to meals provided, so the \$300 threshold generally applies separately to each.

Exempt property benefit



A Christmas party held at the employer’s business premises on a working day where food and drink, including alcohol, is provided is generally deemed to be an exempt property benefit, and is therefore usually FBT-free. This is no different to the occasional Friday drinks at work.

Note however that the FBT rules only exempt such property benefits where:

- the benefit is provided to a current employee in respect of his or her employment, and
- it is provided to, and consumed by, the employee on a **working day** and on the **business premises** of the employer (our emphasis).

This exemption applies only to employees. Where members of the employee’s family (“associates”) also attend a function (such as the Christmas party), the cost attributable to each associate is subject to FBT unless it is a minor benefit. If clients are invited to the function, the cost of providing the entertainment to

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these attendees is excluded from the FBT regime as this is not a “fringe benefit” to staff (and may qualify as a tax deduction — see below under “The giving of gifts”).

External Christmas functions



The costs associated with Christmas parties held off business premises (such as food, drink and transport to a restaurant) will give rise to FBT unless these costs are under the minor benefit threshold. Again, FBT will not apply to the extent that the benefit is provided to a client.

Getting there (and getting home)



It may be the case that to get to the Christmas function, an employer will provide their staff with taxi travel or some other form of transport. Taxi travel provided to an employee will generally attract FBT unless the travel is for a trip that either starts or ends at the employee’s place of work.

For taxi travel to or from a Christmas function, employers should be mindful that:

- where the employer pays for an employee’s taxi travel home from the Christmas party and the party is held on the business premises, no FBT will apply
- where the party is held off premises and the employer pays for a taxi to the venue and then also pays for the employee to take a taxi home, only the first trip will be FBT exempt. The second trip may be exempt under the minor benefits exemption if the employer has adopted to value meal entertainment on an actual basis
- the exemption does not apply to taxi travel provided to “associates” of employees (for example family members).

If other forms of transportation are provided to or from the venue, such as bus travel, then such costs will form part of the total meal entertainment expenditure and be subject to FBT. A minor benefit exemption for this benefit may be available if the threshold is not breached.

The giving of gifts



Gifts provided to employees or their associates will typically constitute a property fringe benefit and therefore are subject to FBT unless the minor benefit exemption applies. Gifts, and indeed all benefits associated with the Christmas function, should be considered separately to the Christmas party in light of the minor benefits exemption. For example, the cost of gifts such as bottles of wine and hampers given at the function should be looked at separately to determine if the minor benefits exemption applies to these benefits.

Gifts provided to clients are outside of the FBT rules, but may be deductible if they are being made for the purposes of producing future assessable income. Some exceptions apply, and employers should check with this office to make sure.

Cash Bonuses



Some generous employers, budget permitting, may choose to provide cash bonuses to staff in their end-of-calendar-year payroll. Bonuses in the form of cash are considered to be a business cost, and therefore deductible under the general deduction provisions. But while there may be no FBT issues to consider, employers may need to remember PAYG withholding, superannuation guarantee and payroll tax issues. We can help with these decisions.

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