

The Christmas Dozen & Fringe Benefits Tax

Entertainment budgets are back!

With Christmas firmly on the horizon, it's time for a party or three. Whilst that is great news for both employers and employees, before you finalise your party plans, here's A Dozen Things You Need to Know about Christmas Parties to ensure that FBT does not unexpectedly spoil the fun.

1. Change in ATO view

The ATO view on Christmas parties and gifts has changed. The minor benefits threshold of less than \$300 (including GST) applies to each benefit provided, not to the total value of all associated benefits. This is good news – we call it dissecting or separating the benefits.

2. What's entertainment?

Entertainment means different things to different people. What's entertainment to one person may be a complete bore to another. Irrespective of the personal views, entertainment is defined as:

- providing entertainment by way of food, drink or recreation
- providing accommodation or travel in connection with such entertainment, or
- paying or reimbursing expenses incurred in obtaining something covered by the above points.

Some examples of providing entertainment are:

- business lunches, drinks and staff social functions such as parties
- tickets to sporting or theatrical events, sightseeing tours or holidays, and
- accommodation and travel in connection with entertaining clients and/or employees at a tourist resort

3. What if I don't drink alcohol or my employer doesn't provide alcohol?

The provision of alcohol does not automatically confer entertainment. If there is an intention to entertain or amuse employees by way of food, drink or recreation, then the entertainment rules will apply, regardless of whether or not alcohol is supplied.

4. What about our sales and marketing team – life's one big all year round Christmas party for them?

Firstly, keeping track of the spend requires a sound expense claim process. Secondly, the ability to claim the minor benefit exemption is restricted where an employee or group of employees, receive similar benefits on a regular basis.

It will be necessary to carefully analyse the benefits provided to the sales and marketing team.

5. What if we don't call it a Christmas Party?

If the intention and substance of the "party" is to reward your employee's by way of a celebration, then it is unlikely that a name change, of itself, will change the tax treatment.

6. What's the actual method?

The actual method requires a robust expense claim process that separates the entertainment expense attributable to employees versus the expense attributable to clients or customers. Only when this process is sound can the actual method be used to value entertainment benefits.

7. We use the 50/50 method, what can we do?

The 50/50 method is the most commonly used method for valuing meal entertainment. The reason for this is ease of calculation. We recommend the use of the actual method – it promotes better accounting practices, provides greater visibility on your entertainment spend and usually results in a reduced FBT bill!

8. What if we have the Christmas Party on our business premises?

The FBT treatment will be dependent on your entertainment valuation methodology. If you are on the 50/50 method, then FBT will be payable. If you are on the actual method, then the on premises Christmas Party benefit will be exempt.

9. What about the Christmas gifts we provide to employees?

One-off Christmas gifts under \$300 (including GST) should be exempt from FBT.

10. What about the GST?

Generally, GST is only claimable to the extent a tax deduction is claimable. You will need to carefully examine all your entertainment expenses, not just the Christmas Party expenditure, to determine how much GST can be claimed.

11. What if the boss announces a Christmas bonus at the Party?

If the boss gives you a cash Christmas bonus, then this must be paid via payroll and pay as you go tax withheld. A cash bonus is not a fringe benefit.

12. If the Christmas Party is exempt, do I need to keep any records?

Even though the Christmas Party may be exempt, you still need to keep records to support the tax treatment.

Note: special rules apply for tax exempt entities.

If you have any questions on the above or anything else, please let us know.

Yours in FBT,



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