

Fringe Benefits Tax

Benefits typically provided during the Christmas period

At this time of year, benefits are typically provided to employees and clients in the form of entertainment and gifts.

The FBT implications of providing such benefits are not always understood by businesses. When the FBT exposure is not effectively mitigated, it could result in significant and avoidable additional costs to businesses. We provide two examples below to illustrate this point.

Example 1 – gift cards provided by an employer

Company A and Company B have 100 employees each. Both businesses provide their employees with a gift card at Christmas time as a thank you for their contribution to the company's success for the past year. Such gift cards are provided only once a year.

	Company A	Company B
	\$250 Gift cards value There were no additional administration fees or charges associated with the gift cards.	\$300 Gift cards value There were no additional administration fees or charges associated with the gift cards.
	As the value of each gift card is under \$300 and it is provided once a year, this benefit qualifies for the minor, irregular and infrequent exemption from FBT. Accordingly, all gift cards provided to employees would be exempt from FBT.	As the value of each gift card is equal to \$300 (i.e. not under \$300), FBT will be payable on the total.
Number of gift cards provided	100	100
Value of each gift card	\$250	\$300
Total	\$25,000	\$30,000
FBT	\$0	\$26,604*
Total cost to the business	\$25,000	\$56,604

* The FBT calculation is as follows: $\$30,000 \times 1.8868 \times 47\% = \$26,604$. Generally, gift cards are not subject to GST and therefore, the Type 2 gross up rate is applied.



As evident from the above example, FBT nearly doubles the cost for **Company B** of providing the Christmas gifts.

Example 2– Christmas party

Company A and Company B invited their employees to their respective annual Christmas parties held at reception venues (off business premises). Both used an external event management provider. In both instances, transport to the venue from the office was organised for the employees. The respective Christmas parties were each attended by 100 employees and both companies were invoiced a **total of \$31,000**.

	Company A	Company B								
	Invoiced amount from event management provider with the following GST inclusive breakdown of costs	Invoiced amount from its event management provider for the total GST inclusive cost of the Christmas Party								
	<table border="1"> <tr> <td>Food and Drinks</td> <td>\$20,000</td> </tr> <tr> <td>Entertainment</td> <td>\$5,000</td> </tr> <tr> <td>Transport to the venue from the office</td> <td>\$2,000</td> </tr> <tr> <td>Management fee charged by event manager</td> <td>\$4,000</td> </tr> </table>	Food and Drinks	\$20,000	Entertainment	\$5,000	Transport to the venue from the office	\$2,000	Management fee charged by event manager	\$4,000	
Food and Drinks	\$20,000									
Entertainment	\$5,000									
Transport to the venue from the office	\$2,000									
Management fee charged by event manager	\$4,000									
	<p>The management fee charged by the event management company is not considered to be a benefit provided to the employees and is not included in the taxable value. On this basis, the per head cost of the Christmas Party works out to be \$270 (i.e. (\$20,000 + \$5,000 + \$2,000)/100).</p> <p>As the cost per person is under \$300 and the benefit is provided once a year, this benefit qualifies for the minor, infrequent and irregular exemption, and will not attract FBT.</p>	<p>As Company B was not provided with a breakdown of costs for the Christmas Party, the total invoiced amount becomes the taxable value for FBT purposes. Accordingly, the cost per person is \$310.</p> <p>As the cost per person is greater than \$300, the minor benefit exemption does not apply, and the benefit is subject to FBT in full.</p>								
Total costs	\$31,000	\$31,000								
Costs subject to FBT	\$27,000	\$31,000								
Number of employees attended	100	100								
Cost per person	\$270	\$310								
FBT	\$0	\$30,309**								
Total cost to the business	\$31,000	\$61,309***								

*Costs subject to FBT.

** The FBT calculation is as follows: $\$31,000 \times 2.0802 \times 47\% = \$30,309$. Christmas party costs are subject to GST, therefore, the Type 1 gross up rate is applied.

*** The above calculations assume that the Actual Method for valuing meal entertainment is used. In some circumstances, it might be more advantageous to use the 50/50 split method. However, a business' total annual meal entertainment expenditure must be considered to determine which valuation method produces the lowest taxable value.



As demonstrated above, FBT essentially doubles the cost of providing the Christmas party for employees of **Company B**.

It is important to understand the FBT rules and implications for the business when providing various benefits to employees. With proper planning, costs can be significantly reduced where FBT is avoided.

To help you identify and analyse your entertainment expenditure, we have provided some notes in respect of the FBT, GST Input Tax Credits (GST ITC), and income tax deductibility implications associated with festive season celebrations.

Giving gifts to clients and employees

The table below summarises the tax treatment of gifts provided to clients and employees (or their associates).

	 Gifts - Not entertainment (e.g. hamper, bottle of wine)		 Gifts - Entertainment (e.g. movie / theatre tickets, restaurant voucher)	
Client	No FBT Deductible GST ITC available		No FBT Not deductible No GST ITC	
Employee or Associate (e.g. Spouse / Partner / Family Member)	Less than \$300 (GST incl)	\$300 or more (GST incl)	Less than \$300 (GST incl)	\$300 or more (GST incl)
	No FBT Deductible GST ITC available	Subject to FBT Deductible GST ITC available	No FBT Not deductible No GST ITC	Subject to FBT Deductible GST ITC available

**This assumes the entertainment is not meal entertainment or if it is meal entertainment, that the actual method is used. If the entertainment constitutes meal entertainment and the 50/50 split method or register method are used, the costs must be included as per the method requirements. Please note that the application of the minor benefits rule is limited for income tax exempt businesses in relation to entertainment benefits.*

Christmas parties and year end functions

The correct tax treatment of costs associated with Christmas functions can be confusing as it depends on whether the employer is concessionally taxed for FBT and income tax purposes, and the method chosen by the employer to value meal entertainment for FBT purposes (there are three methods: 50/50 Split, Actual or Register) and whether benefits are provided to employees, associates or clients.

The table below summarises the treatment for an ordinary business taxpayer (i.e. it does not apply to income tax exempt businesses). Please remember to keep necessary documentation on file such as attendance lists to allow the calculation to be made correctly, accurately, and be substantiated in the event of a tax office audit.

Entertainment costs (e.g. Christmas party costs) are only tax deductible, and GST ITC are only available to the extent that the costs are subject to FBT. Where event costs are exempt from FBT, there should be no income tax deduction nor any GST ITC entitlement.

Entertainment function		
Less than \$300 per head (GST inclusive) <i>on or off</i> business premises	\$300 or more per head (GST inclusive) <i>on</i> business premises	\$300 or more per head (GST inclusive) <i>off</i> business premises
Actual method		
Employee or Associate	Employee	Employee or Associate
Minor benefit for employee and associate costs - exempt from FBT. Not deductible. No GST ITC.	Exempt benefit for employee costs, no FBT. Not deductible. No GST ITC.	Costs are subject to FBT. Deductible. GST ITC available.
	Associate FBT is payable on associate costs and is deductible. GST ITC available.	
Client		
No FBT on client costs. Not deductible. No GST ITC.		
50/50 Split method		
Employee / Associate / Client		
Include all GST inclusive costs. 50% subject to FBT and 50% exempt. The portion subject to FBT is deductible with GST ITC available. The portion of costs not subject to FBT is not deductible with no GST ITC available.		
Register method		
Employee / Associate / Client		
Include all GST inclusive costs. Register percentage subject to FBT is deductible with GST ITC available. The portion of costs not included for FBT is not deductible with no GST ITC available.		

Note: The table is designed to apply to most common circumstances and is only meant to indicate the likely FBT treatment. Employers should seek independent tax advice on their specific circumstances before entering into any arrangement or transaction.

The tax treatment for income tax exempt employers

The FBT treatment of entertainment costs for income tax exempt employers (who are taxable for FBT purposes) is substantially similar to that of an income tax paying employer where the 50/50 Split or Register Methods are chosen. However, where the Actual Method is used, FBT is generally payable on costs relating to the employee and any associate(s) regardless of the cost or location of the function (i.e. the minor benefit and food and drink consumed on premises exemptions are not available to income tax exempt employers). Under this method, the costs relating to the entertainment of clients should remain not subject to FBT.

Pitcher Partners recommend businesses undertake the following:

- **Consider the type of entertainment benefits** to be provided to employees within the business;
- **Contact a member of our employment taxes team** ahead of providing employee benefits and as part of your planning to discuss various options to ensure that benefits are provided in the most efficient manner from an FBT perspective;
- **Consider the FBT implications and record keeping requirements;** and
- Where applicable, ensure that internal communication takes place between various parts of the business (for example, human resources and finance teams) before fringe benefits are being provided to employees.

Contact us

Contact our Pitcher Partners expert for further information and assistance.



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