



Will Your Business Gift Incur Fringe Benefits Tax

There are various times of the year when you'd like to reward your staff for their service, such as Christmas and birthdays. Or maybe you just want to thank your staff at any time of the year because you appreciate their efforts. It's a nice thing to do and with the right approach you might be able to enjoy some tax benefits and avoid paying Fringe Benefits Tax (FBT) while you treat your staff.

Fringe Benefits Tax

FBT is separate from income tax and is based on the taxable value of the fringe benefits provided. FBT is a tax that is levied on most non-cash employee benefits paid for by the employer as a part of their employment. This may occur on a regular or non-regular basis. The tax is levied on the employer at a rate of 45% plus the 2% Medicare levy and is applied to an employee as well as associates of the employee. It is a way to supplement employees wages or salaries and can be paid in the form of a company car, private health insurance, gifts, entertainment and more.

The first thing to do is work out if your gift is considered by the ATO as 'entertainment' or 'non-entertainment'. In the eyes of the ATO, 'entertainment' means:

- Providing entertainment, which includes food, drink, leisure activities and recreation
- Providing accommodation or travel connected to the entertainment

- Paying or reimbursing any expenses in which the entertainment was obtained

Entertainment gifts

The ATO regards entertainment gifts to be personal in nature and are not subject to GST, however you cannot claim a tax deduction or GST credit with these gifts. The nature of these gifts include:

- staff social functions such as Christmas, birthday, farewell, anniversary parties and/or celebrations
- client business lunches
- product releases
- golf days
- gym and sporting club memberships
- rewards and recognition functions.

Non-entertainment gifts

Non-entertainment gifts given to staff and associates do not incur FBT where the total cost is less than \$300 including GST. If this type of gift is over \$300 including GST, tax deductions and GST can be claimed, however they will incur FBT. Tax deductions and GST can be claimed. Non entertainment gifts can include, skincare, unopened bottles of alcohol, flowers, perfume, hampers and gift vouchers.

Will Your Business Gift Incur Fringe Benefits Tax

Minor gifts

A minor gift is regarded as gift under the cost of \$300 including GST and:

- is infrequent and irregular
- the taxable value of the gift is low
- is difficult to calculate the taxable value of the gift
- the gift is a benefit which is the result of a contingency such as unexpected overtime.

The following table shows where FBT will need to be paid and where you'll be able to claim an income tax and GST (if creditable) can be claimed:

Gift to employee of business associate	FBT liability	Income Tax Deduction	Claim GST
Gift as entertainment <\$300 incl GST	X	X	X
Gift as entertainment >\$300 incl GST	✓	✓	✓
Property gift as entertainment	✓	✓	✓
Gift as non-entertainment <\$300 incl GST	X	✓	✓
Gift as non-entertainment >\$300 incl GST	X	X	X
Property gift as non-entertainment	✓	✓	✓

It comes down to cost

If the cost of your gift is less than \$300 including GST, you won't be liable for FBT, but you also won't be able to claim the income tax or GST credits. If the cost of your gift is over \$300 including GST, you can claim the income tax and GST credits, but you'll also be liable to pay the FBT.

Not sure?

It pays to know your obligations as there are stringent rules that may differ for different circumstances. You can always ask for the advice of a tax professional. ITP The Income Tax Professionals have helped individual Australians and Australian businesses for 50 years and can help you too. Speak with a Professional today.

ITP The Income Tax Professionals are more than tax agents. They have been helping Australian individuals and businesses with their business accounting and advice for 50 years and offer a wealth of knowledge. Speak to a Professional today and see how your business can be more profitable.



THE INCOME TAX PROFESSIONALS