



Can Christmas Parties Be Claimed As A Tax Deduction?

Christmas is nearly here and given how hard 2020 has been for many business, is a hint of excitement against the bleak run of COVID-19 months. You know your employees have worked extra hard this year to get you through and you want to thank them for their hard work and sacrifices. Planning your Christmas party now, COVID-19 safe of course, with a little knowledge of the tax deductions you'll be able to claim, can make this year's party extra sweet.

Planning Your Christmas Party

Planning the venue for your Christmas party may be more than finding a great restaurant and club, especially this year if your business has been running lean due to COVID-19. You may be surprised that the ATO doesn't mind businesses holding a Christmas party and there are some tax concessions and claims to be made – however complex the rules may be.

\$300 Minor Benefits Rule

You can take advantage of the \$300 (including GST) minor benefit and exemption rule to hold a Christmas function for your current employees and their spouses. Your party will need to be held on premises and during a business day. If your costs are below \$300 per head, you won't incur FBT, but you won't be able to claim tax deductions or GST credits.

Fringe Benefits Tax vs Christmas Parties

Christmas parties are notorious for incurring Fringe Benefits Tax (FBT). A fringe benefits tax is incurred on benefits given to employees over \$300 as it is considered income other than salary or wages, paid by the employer. If the cost of food and drink consumed by employees and their spouses is over \$300 per head at your in-house party, you will incur and need to pay FBT on the expenses of your employees spouse or family members only.

If you've planned your Christmas party to be at a restaurant or venue, you won't need to pay FBT if the costs remain under \$300 per head as it is considered a minor benefit, however if the costs rise over \$300, you'll need to pay FBT for your employees and their spouses and family. The good news is, if you have clients attending, you won't incur the FBT on their heads.

Clear as mud?

Here's a handy table to help you out:

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Christmas party held on-site on a business day	
If your current employees only attend	There are no FBT implications as it is an exempt property benefit.
If current employees and their associates attend at a cost of \$180 per head	There are no FBT implications for employees as it is an exempt property benefit, and the minor benefit exemption could also apply. For associates, there are no FBT implications as the minor benefit exemption applies.
If current employees, their associates and some clients attend at a cost of \$365 per head	There are no FBT implications for employees as it is an exempt property benefit. A taxable fringe benefit will arise as the value is equal to or more than \$300 for associates. There will be no FBT payable for clients and no income tax deduction.
Christmas party held off-premises	
If your current employees only attend at a cost of \$195 per head	There are no FBT implications as the minor benefits exemption applies.
If current employees and their associates attend at a cost of \$180 per head	There are no FBT implications as the minor benefits exemption applies.
If current employees, their associates and some clients attend at a cost of \$365 per head	A taxable fringe benefit will arise for employees. A taxable fringe benefit will arise for associates. There is no FBT payable for clients and the cost of providing the entertainment is not income tax deductible.

Providing Transport

As an employer, you might choose to provide transport for your employees to your Christmas party. Taxis provided to an employee will generally attract FBT, unless the travel is to or from the employees place of work.

For the sake of a Christmas party, if you pay for an employee's taxi travel home from the Christmas party and the party is held at your place of work, no FBT will apply. If the party is held off-premises and you pay for

your employee taxi travel to the venue and the home after the event, only the first trip is FBT exempt. The second trip may be exempt under the minor benefits exemption if you adopt its meal entertainment on an actual basis. The exemption does not apply to taxi travel provided to associates of employees.

You can provide other forms of transport to and from your venue, such as buses. These costs will form a part of the total meal entertainment expenditure and will be subject to FBT. If the threshold is not breached, then it may fall under the minor benefit exemption.

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Meal Entertainment

Your Christmas party may not include recreation. If so, you may choose the value of food, drink, associated accommodation or travel as 'meal entertainment'. Meal entertainment allows staff to pay less tax by claiming meals and drinks consumed in a restaurant/café or provided at a social gathering. Technically, it is defined as the "provision of entertainment by way of food or drink".

The taxable value can be made using a 50:50 method, 12-week method or actual method.

50:50 Method

This is a 50:50 split whereby the taxable value is 50% of your total expenditure when providing entertainment to your employees, associates or clients during a FBT year. The total meal entertainment expense includes providing food and drink to employees or your clients on your business premises and is generally used when there is no attendee data.

12-week Method

This method involves tracking the taxable value of each individual fringe benefit and is based on the percentage of meals and entertainment provided to employees as registered in a log for a 12 week **representative period**.

Actual Method

This method is best used when you have counted the exact number of attendees at the majority of meals and entertainment provided or the total value of all meals and entertainment during the FBT year based on actual expenditure.

In a nutshell:

- FBT will be attracted to your businesses payable tax based on the venue for your Christmas party
- FBT will be attracted on your Christmas party based on the day of the week you hold your party on
- Christmas parties cannot be claimed as an income tax deduction
- Your gift to employees, associates and clients should fall below \$300 to be considered a minor benefits exemption
- If you give your gift to your employee, associate or client at your Christmas party, the cost of the gift and per head cost of the party can be calculated separately to determine if they fall under \$300 in value

ITP would like to wish every Australian a safe and happy Christmas followed by a prosperous New Year. ITP's Tax Accountants are specialists in Australian taxation law and Australian small business. Phone 1800 367 487 and chat with one of our friendly tax accountants and make your Christmas tax-friendly!

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