



How to Claim Christmas Gifts as A Tax Deduction

2020 has been a strain on many Australian small businesses and business owners are looking for ways to thank their customers for their continued support throughout a difficult year. Christmas is the opportune time to thank the people who have supported your business – both employees and customers alike. Giving a Christmas gift is a great way to show your appreciation and to sweeten the deal, there are tax deductions that can be claimed.

It's a good idea to be armed with knowledge so you can make the most out of gift giving for Christmas and the types of gifts you should give. There are rules that need to be followed if you hope to claim your gift as a tax deduction and not incur Fringe Benefits Tax (FBT).

Minor Benefits Exemption

In the eyes of the ATO, a minor benefit is a benefit or gift that has a value of less than \$300 (including GST) which will be exempt from FBT as long as it is an 'infrequent' or 'irregularly' given gift and if the 'benefit' is low. These types of gifts can be given to your staff, spouses or associates.

If you're giving your gift to employees at a Christmas function, the gift needs to be calculated separately over and above the cost of the party. [\[link to blog about tax implications of Christmas parties\]](#)

What sort of gifts should you give?

Any sort of gift that can be classified as entertainment cannot be claimed, whether that be solely at Christmas or any other time of the year. If you want to claim your gifts as a tax deduction – and this is a good idea – it's best to give items classified as 'non-entertainment' gifts. Non-entertainment gifts given to staff and associates are usually exempt from FBT, and the item cost as well as the GST can be claimed.

Do the rules have you scratching your head for ideas? Happily, there are certain gifts that fall within the ATO's guidelines, and include:

- Hampers
- Skincare
- Beauty products
- Flowers
- Wine
- TV
- Computers
- Crockery
- Gardening equipment
- Perfumes
- Gift vouchers

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- Groceries
- Games

You can gift alcohol, we hear you say? Beer or wine that is not consumed at a workplace gathering or party, but consumed at home can be claimed under this rule. You'll also be able to claim the GST credit, and not incur FBT up to the \$300 limit!

Gifts to suppliers and clients

Gifts beneath the non-entertainment rule given to suppliers and clients do not fall within the FBT rules as they are not considered to be made to your staff. You'll still be able to claim the tax deduction and GST credits as long as your gifts are not excessive or overly valuable.

What not to give

We can't tell you what to give your staff or associates at Christmas. That's up to you and you may be feeling a little more generous this year. It's wise to keep in mind though, that the items that can't be claimed under the minor benefits rule generally fall under the 'entertainment' banner, and include:

- Tickets to the theatre
- Tickets to sporting events
- Movie tickets
- Holidays
- Accommodation
- Flights
- Club memberships
- A trip to the amusement park
- Live events

Gifts that are recreational in nature are considered to be of a personal benefit and cannot be claimed as a tax deduction. If you'd like to gift your clients with an entertainment gift, the cost of the gift is not subject to FBT, however you won't be able to claim a tax deduction or GST credit.

What if my gift is more than \$300?

You can certainly gift your employees and associates with a higher cost gift, but tax-wise this will have implications. A tax deduction and GST credit can still be claimed, but FBT is payable at the rate of 49 percent on the grossed-up value of the gift.

How Do You Calculate FBT?

You might want to give a gift worth more than the GST inclusive price of \$300. There are considerations to be made.

Fringe benefits tax is paid by employers on certain benefits they supply to their employees, employee's families or associates. FBT is a separate tax to income tax and is calculated on the taxable value of the fringe benefits.

The ATO considers gifts or benefits over a certain amount to be a part of a taxable income as it is considered to be a payment made to the employee, but in a different form to salary or wages. As an employer, you must self-assess your FBT liability for the year (1 April to 31 March) and lodge an FBT return.

Employers can generally claim an income tax deduction for the cost of providing fringe benefits and for the FBT they pay, as well as claim GST credits for items they have provided. Specific concessions are made to non-profit organisations. The grossed-up FBT rate is 47 percent to 49 percent based on the grossed-up rate.

If you use the lower grossed-up rate of 47 percent, you are not entitled to claim GST credits. If you calculate your FBT using higher grossed-up rate, you are entitled to claim the GST. Fringe benefits of over \$2,000 made to employees, their families or associates during the FBT year must report the grossed-up taxable value of the fringe benefits on your employee's payment summary or through single touch payroll.

So, what is the cheapest, most tax-friendly way to show your appreciation to your employees and clients at Christmas?

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Gift giving can become complex, so the following rule of thumb might be helpful:

- Make sure your gift is beneath \$300 including GST
- Make sure your gift is classified as non-entertainment
- Make sure your gift is a 'once-off'
- Make sure your gift doesn't incur FBT
- Keep your records to prove that you bought for and gave your gift so you can claim your tax deductions

Cash Bonus

If you're feeling generous, you may gift your employees with a cash bonus. These bonuses are a business cost and is deductible under the general deduction provisions. Don't forget to tell your employees that these gifts form a part of their income and will be treated no differently to their salary or wages which they will need to report when they lodge their tax return.

A cash bonus is not subject to GST or FBT rules, however you should consider PAYG withholding, superannuation guarantee and payroll tax issues.

Want to make sure you're doing the right thing? 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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