

Fact Sheet

Meals, Gifts & Entertainment



OVERVIEW

MEALS, GIFTS AND ENTERTAINMENT

Over the course of the year, most businesses purchase or reimburse the cost of meals and gifts to both their clients and employees. From an accounting and record keeping point of view, it is important to make the correct Income Tax and GST determination for these transactions and consider possible FBT implications when making these purchases for employees. This Fact Sheet aims to help businesses which **are not registered for FBT** to correctly record meals, gifts and entertainment expenses and avoid FBT implications.

DEFINITIONS

TYPES OF PURCHASES

Light Refreshments	The provision of food and drinks provided on site, during working hours which enable the employees to complete their working day with comfort. It includes, tea, coffee, cakes, sandwiches, finger food, soft drinks and occasionally, alcohol.
Entertainment	The provision of entertainment by way of food, drink or recreation as well as accommodation or travel in connection with such entertainment. Payment or reimbursement of expenses incurred in obtaining entertainment. (ATO Tax Assessment Act 1997)
Recreation	The provision of amusement, sport or similar leisure activity provided on or by means of a vehicle, ship, vessel or aircraft.
Gifts	Items purchased for special occasions, including holidays (Eg. Christmas), birthdays, anniversaries and occasionally, rewards.

DEFINITIONS

RECIPIENTS

Client	A person or an organisation that receives a service from your business in return for a payment.
Supplier	A person or an organisation that provides a service to your business in return for a payment. This also includes contractors.
Employee	A person who receives or has received in the past, a salary or wage from your organisation.
Associate	A relative of an employee, including their spouse/partner, children or parents.

TAX TREATMENT DETERMINE THE TYPE OF PURCHASE – FOOD & DRINK

The Tax Office has released the Taxation Ruling TR 97/17 to assist taxpayers in determining whether the provision of meals or gifts has the character of entertainment.

Why	<p>the food or drink is being provided? Providing refreshments to enable the employee to complete the working day in comfort is not likely to be entertainment. Providing food or drink in a social situation where the purpose of the function is for employees to enjoy themselves is likely to be entertainment.</p>
What	<p>type of food or drink has been provided? The more elaborate a meal, the more likely to be entertainment.</p>
When	<p>is the food or drink being provided? Providing food or drink during work time, overtime or while an employee is traveling for work is not likely to be entertainment. Providing food or drink outside working hours such as at a social function, is likely to be entertainment.</p>
Where	<p>is the food or drink being provided? Providing food or drink on business premises or at the employee's usual workplace is not likely to be entertainment. Providing food or drink off business premises, such as at a function room, hotel, restaurant or consumed with other forms of entertainment, is likely to be entertainment.</p>

TAX TREATMENT DETERMINE THE TYPE OF PURCHASE – GIFTS

The ATO identifies two types of gifts:

Entertainment Gifts	Event tickets, restaurant meals, airline tickets
Non-Entertainment Gifts	Hampers, bottles of wine or other liquors, perfume, flowers, stationery sets etc

TAX TREATMENT FBT IMPLICATIONS

The provision of both entertainment and gifts to employees and their associates may attract Fringe Benefit Tax. As previously noted, this User Guide has been designed for those businesses which are not registered for FBT nor wish to report on FBT.

THE MINOR BENEFIT EXEMPTION

Under this exemption, a gift provided to an employee is not subject to FBT where the following conditions are met:

- The gift value is under \$300 (GST Inclusive)
Note: this value is applied per instance and per employee and/or associate.
- The provision of gifts/entertainment must be infrequent and irregular.
Note: the ATO has excluded from the definition of 'Regular' the following instances: special occasions (birthdays, anniversaries etc) and Christmas.

RECORD KEEPING ACCOUNTS

Whether the cost of the meals is Tax/GST claimable or not, these expenses should still be reported in the company P&L. It is also beneficial to distinguish the recipients of these purchases. The following table provides examples on the typical expense accounts used to identify the different types of meals, gifts and entertainment expenses.

EMPLOYEES		CLIENTS	
Account Name	Tax Code	Account Name	Tax Code
Refreshments	GST	Refreshments	GST
Entertainment	BAS Excluded (N-T)	Entertainment	BAS Excluded (N-T)
Gifts	GST	Gifts	GST
Travel - Meals	GST (<i>Domestic</i>) FRE (<i>International</i>)		
Facilities - Amenities	GST FRE (<i>Unprocessed food</i>)		

RECORD KEEPING RECORDING TRANSACTIONS

These transactions can be recorded either as Purchases or Spend Money. It is recommended to provide details for each transaction, particularly for staff entertainment (including number of people attending the event and the event location).

As meals and entertainment are still considered business costs, copies of Receipt/Tax Invoices must be provided, even when the expense is not claimable.



FREQUENTLY ASKED QUESTIONS

Do I have to be concerned about FBT implications for clients' gifts and entertainment?

No, FBT implications only affect employees and their associates.

Is there a dollar value limit for clients' gifts?

No, the limit only applies to employees' gifts for FBT purposes.

We buy a cake and soft drinks for our employees' birthdays, is this considered entertainment?

No, you can expense the cost of the cake and drinks to Amenities or Employees - Refreshments.

We hold our Christmas party at a restaurant each year, our employees' partners are invited, do I have to budget \$300 for food and drink for both or per head?

The FBT minor exemption is applicable per head.

We hold two Christmas parties to cater for our employees' different family and personal commitments. Some of our more 'social' employees attend both, do I have to budget the \$300 cost for these employees for both events or per event?

The FBT minor exemption is applicable per event.



CASE SCENARIO - THE CHRISTMAS PARTY

SCENARIO A

A company holds a Christmas lunch on their business premises on a week day. Employees attend the event. Finger food and drinks (beer and soft drinks) are provided. The cost per head is \$150.

1. **Why** is the food and drink provided? – Christmas party
2. **What** type of food and drink is provided? – Simple: finger food, soft drinks and beer
3. **When** is the food and drink provided? – On company time
4. **Where** is the food and drink provided? – On premises

Outcome

Type/Account:	→ Employees - Refreshments
Income Tax Deductible	→ Yes
GST Credit	→ Yes
FBT	→ No

SCENARIO B

A company holds a Christmas dinner at a restaurant on Saturday night. Both employees, their associates and clients are invited. A fixed price three course meal is served. The cost per head is \$250.

1. **Why** is the food and drink provided? – Christmas party
2. **What** type of food and drink is provided? – Elaborate: three course meal with wine
3. **When** is the food and drink provided? – Outside company time
4. **Where** is the food and drink provided? – Off premises

Outcome

Type/Account:	→ 50% Employees – Entertainment and 50% Client - Entertainment
Income Tax Deductible	→ No
GST Credit	→ No
FBT	→ No



CASE SCENARIO - CLIENT'S MEETING

SCENARIO A

A company holds a client's meeting in their meeting room. Both morning tea and lunch are provided. The cost per head is \$50.

1. **Why** is the food and drink provided? – Business Meeting
2. **What** type of food and drink is provided? – Simple: sandwiches, soft drinks, coffee and tea
3. **When** is the food and drink provided? – On company time
4. **Where** is the food and drink provided? – On premises

Outcome

Type/Account:	→ Clients - Refreshments
Income Tax Deductible	→ Yes
GST Credit	→ Yes
FBT	→ N/A

SCENARIO B

A company holds a client's lunch meeting at a local Café. The cost per head is \$40.

1. **Why** is the food and drink provided? – Business Meeting
2. **What** type of food and drink is provided? – Simple: sandwiches, soft drinks, coffee and tea
3. **When** is the food and drink provided? – On company time
4. **Where** is the food and drink provided? – Off premises

Outcome

Type/Account:	→ Client - Entertainment
Income Tax Deductible	→ No
GST Credit	→ No
FBT	→ N/A

**CASE SCENARIO - THE CHRISTMAS PRESENT****SCENARIO A**

As a Christmas present, a company decides to give a \$200 hamper to their employees.

- **Gift Type** – Non-Entertainment

Outcome

Type/Account: → Employees - Gifts

Income Tax Deductible → Yes

GST Credit → Yes

FBT → No

SCENARIO B

As a Christmas present, a company decides to give two \$50 Gold Cinema tickets to their employees.

- **Gift Type** – Entertainment

Outcome

Type/Account: → Employees - Entertainment

Income Tax Deductible → No

GST Credit → No

FBT → No

Scenario C

As a Christmas present, a company decides to give a \$200 gift voucher to their employees.

- **Gift Type** – Non-Entertainment

Outcome

Type/Account: → Employees - Gifts

Income Tax Deductible → Yes

GST Credit → No

FBT → No



CASE SCENARIO - THE CHRISTMAS PRESENT

SCENARIO A

As a Christmas present, a company decides to give a \$200 bottle of wine to their clients.

- **Gift Type** – Non-Entertainment

Outcome

Type/Account: → Clients - Gifts

Income Tax Deductible → Yes

GST Credit → Yes

FBT → N/A

SCENARIO B

As a Christmas present, a company decides to give two \$100 tickets to a sporting event to their clients.

- **Gift Type** – Entertainment

Outcome

Type/Account: → Clients - Entertainment

Income Tax Deductible → No

GST Credit → No

FBT → N/A

Scenario C

As a Christmas present, a company decides to give a \$200 gift voucher to their clients.

- **Gift Type** – Non-Entertainment

Outcome

Type/Account: → Employees - Gifts

Income Tax Deductible → Yes

GST Credit → No

FBT → N/A