



CHRISTMAS CHEER AND THE ATO

With the December festive season upon us, it's time to remind you again to be aware of some of the potential tax traps in spreading the season's festive goodwill.

A bit like an unwanted guest who turns up at your party without an invitation, the ATO has an interest in your office festive season events especially from a fringe benefits tax (FBT) point of view.

FORWARD PLANNING IS ESSENTIAL

The impact of FBT rules on Christmas celebrations can be particularly vexing. It's absolutely essential to get advice about what to do beforehand to keep things under control.

Christmas parties and FBT

The potential FBT consequences of your Christmas party can be tricky because of the different ways FBT can impact on different types of people, costs and situations.

Whether you're likely to have an FBT problem depends on:

- where and when you have your party;
- who comes; and
- how much it costs.

We can't cover all the possibilities, but here are some outcomes for you to consider.

Celebrating on site

If you hold your party on a work day at your business premises and only your employees attend, costs such as food and drink are FBT exempt, regardless of what the cost is per head for each employee.

However, if you also invite your employees' associates (eg, family) and perhaps some clients then it gets a bit more complicated:

- what you spend on entertaining your employees' associates are taxable fringe benefits and you'll need to work out whether you have an FBT liability; and
- what you spend on your clients may be exempt from FBT altogether.

TIP

Food and drink you provide to your clients is likely to be exempt from FBT whether at a social or business function on or off your business premises, but remember it is generally not tax deductible.

Celebrating offsite or not on a work day

If your party isn't held on a work day or on your business premises (eg, you head off to the local restaurant), the FBT alarm bells can really start to ring loud and clear.

However, if you can contain your costs by keeping them under \$300 per head for your employees and employees' associates – you may be able to reduce your FBT liability by relying on the *minor benefit exemption*.



Calculating whether you come in below the \$300 minor benefit threshold can be tricky. For example, the cost per head includes the cost of food and drink and other items like:

- the cost of transport to venues; and
- taxis home.

A happy gift giving experience

Give some careful thought to how you give gifts to your employees at Christmas time:

- if you are also handing out gifts to your employees at the party, the ATO now considers them separately from the cost per head with regards to the party - you may be able to rely on the *minor benefits exemption* for a Christmas gift of less than \$300 in value, which is considered to be a separate benefit from the party itself;
- if you don't hand out gifts at the party but at some other time, it's possible that you may still be able to rely on the minor benefit exemption at that time if the value of each gift is less than \$300; and
- as an alternative, if the gifts you give are products that you would normally sell to members of the public, there is another exemption of \$1000 per annum for each employee that may apply (called an in-house exempt property benefit).

What's tax deductible?

Generally the cost of providing a Christmas party is income tax deductible only to the extent that it is subject to FBT.

In working out what you can claim as a tax deduction, you will need to watch out for the following types of expenditure:

- any costs that are exempt from FBT (eg, the exempt minor benefits and in-house exempt property benefits noted above) cannot be claimed as an income tax deduction; and
- the costs of entertaining clients are not subject to FBT and are also not income tax deductible.

Should you require any further information or would like contact information in this area please do not hesitate to contact Michelle Pearce, John Fara or Chris Rutter on (02) 9555 1309.

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