

Parties and GIFT GIVING



To ensure that your business receives the most benefit, or at the very least, does not fall foul of any of our complex tax laws, it is vital that you understand just what is allowable and what is not when you are hosting a party after your big shares windfall, writes **John Corias**.

To simplify the matter, let's break it down into two elements; the first being a staff or client party and the second being the provision of gifts to either staff or customers.

In a nutshell, the provision of entertainment for staff is generally not an allowable income tax deduction and by hosting a business party you are effectively entertaining your staff and also their associates. By hosting such a party, the implication is that the entertainment expense will be subject to Fringe Benefits Tax, but then also allowable as a deductible income tax expense if you choose to pay the correct amount of FBT applicable. However, any tax savings on the income tax side will most likely be outweighed by the FBT payable, not to mention the onerous administrative requirements of having an annual FBT return prepared and lodged.

The major exception in this area is the 'minor benefit' rule. This states that a minor benefit is one that has a notional taxable value of no more than \$300 and one that would be unreasonable to be treated as a fringe benefit. This can normally be the case where the benefits are provided on an infrequent basis and there is little ambiguity over the value of the entertainment being provided.

By treating the payment of a business Christmas party under the 'minor benefit' rule, the expense is still not income tax deductible and nor will it be subject to FBT. Therefore, providing a great

incentive to keep the costs of any business celebration to under the \$300 per person limit. Hosting the party on business premises during working hours will also reinforce the application of the minor benefit rule. Of course, without going into too much detail, hosting parties on business premises opens up an entirely different can of worms that is best left for another time.

Should you choose to take the path of claiming such expenses and then complying with your FBT requirements, there are a number of steps that you can take to minimise the amount of FBT payable. These can include, but are not limited to, asking employees to make a personal contribution towards the cost of the party, sending employees to shares seminars/tradeshows at no cost to the employee instead of a party or simply paying staff bonuses and allowing the staff to pay the tax on their bonus themselves.

From a GST standpoint, the GST on expenses associated with a business celebration will not be claimable under any circumstances, whether you claim the expense and pay the FBT or don't claim it at all.

A separate issue altogether arises when an employer wishes to reward hard working and loyal employees with gifts of appreciation. Provided that these gifts are infrequent and not overly excessive in value these gifts provided to employees are usually an acceptable income tax

deduction and GST credits can also be claimed where applicable. These include flowers, wine, perfumes, gift vouchers and so on. Such gifts are classified as non-entertainment gifts and when given to staff members do not fall within the FBT rules.

However a word of caution is needed here. These gifts are generally accepted, but the giving of gifts such as concert and sporting event tickets and holidays would be classified as the provision of entertainment to employees and therefore not deductible and potentially subject to FBT, depending on the amount and frequency of the gifts provided. Generally a tax deduction and GST credit cannot be claimed for these gifts as they would come under the minor benefit rules, provided that their GST inclusive value does not exceed \$300. Likewise, the very same rules will apply to the provision of gifts to business associates such as valued customers and suppliers.

By doing some homework to improve your understanding of the tax laws surrounding expenses related to end of year celebrations and the rewarding of your hard working staff members, you can save yourself a great deal of worry should the taxman ever decide to investigate your business. In this way you can also feel more relaxed about giving and sharing the end of year celebrations with your staff as a united team. **TGR**

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