Will your Christmas party leave you with a tax hangover?

By Fordham
6 December 2024



When the festive season arrives it's easy to get caught up in the spirit of Christmas. People tend to spend more than they should and are happy to worry about the consequences in the new year. December also marks the end of the calendar year which seems like the perfect

time to thank and spoil your nearest and dearest. The same can be said for many business owners and managers. The pressure and expectation to arrange parties, barbecues, dinners,activities, hampers and gifts is everywhere! So why not spoil your employees, they've worked hard for you all year and have earned it. Plus, it's all tax deductible, right? Wrong!

A common misconception is that gifts and entertainment expenditure is all tax deductible if it relates to employees in your business. Unfortunately, the tax rules are not that generous or straight forward. A little thing known as Fringe Benefits Tax (FBT) comes into play.

Fringe Benefits Tax, put simply, is a tax that is payable by employers when certain benefits are provided to their employees. These benefits could include motor vehicles, loans, phones, and importantly to note at this time of year, it includes entertainment and gifts.

There are, however, a number of exceptions to this rule to be aware of. For instance, if the benefit provided is considered 'minor and infrequent', no FBT is payable. Expenditure will be considered minor and infrequent if the outlay is less than $300 per head and is not provided on a regular or recurring basis. This rule is often applied when determining if a Christmas Party will be subject to FBT. As an example, if a business holds a Christmas Party which costs a total of $4,000 and 18 employees attend, this equates to $222 per head and therefore the minor and infrequent exemption is likely to kick in.

It might be tempting to think you're home free if you escape FBT, but the most important take away is this; if the entertainment or gifts you're providing are exempt from FBT, this most likely has two unfavourable consequences.

1. The expenditure will not be tax deductible.

2. Any GST paid on the expenditure cannot be claimed as a credit.

These hidden costs are often misunderstood or ignored. When you appropriately factor in all the variables, you might find that those gifts or Christmas Parties provided in December are costing you more than you expected. That's not to say you should abandon all festive traditions immediately, it's just important that you take on board the following advice:

- DO make sure you're aware how the rules work so there are no nasty surprises later.
- DO have open discussions with your accountant about this.
- DON'T try to hide your Christmas expenditure in your accounts
- DO invite your accountant to your Christmas Party!

If you have any queries or would like to discuss further please do not hesitate to contact your Fordham Partner.

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