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## **Christmas parties & small business FBT tips**

If you are an employer and will be celebrating the holiday season with your staff with a Christmas party and gifts, it is time to consider the tax implications of these celebrations.

Generally speaking, any benefits that an employer provides to an employee or an associate of an employee, other than wages and superannuation, will fall foul of Fringe Benefits Tax (FBT). With the FBT rate at 46.5% this is the last thing business owners will want to incur.

The important points are summarised below for you to consider: -

- The costs associated with a Christmas function are classed as entertainment and subject to Fringe Benefits Tax (FBT) rules.
- Costs to include in the Christmas function include food, drinks, venue hire, transport, gifts for staff and entertainment.
- Where the Christmas function is held on a working day on the employer's premises and consumed only by current employees, the costs of the function will be exempt from FBT.
- Christmas parties costing less than \$300 per head are exempt from FBT in most cases, but are not tax deductible or GST creditable. Partners of employees have their own \$300 allocation. A tax deduction and GST credit can be claimed for Christmas parties costing over \$300 per head but FBT will apply.
- Minor benefits are items given infrequently and irregularly throughout the year to employees with a total GST inclusive value of less than \$300 each. Minor benefits include shopping vouchers, bottles of wine, hampers and pens but exclude any form of entertainment e.g. tickets to a show or sporting event. The provisions of these gifts given to staff are tax deductible and GST creditable to the employers and exempt from FBT provided they are not given at the Christmas party which would be classed as entertainment.
- The costs of entertaining clients are not subject to FBT and are not income tax deductible. No GST credits can be claimed on these costs.

**Christmas party held on the business premises** - a Christmas party provided to current employees on your business premises or worksite on a working day may be an exempt benefit. The cost of associates attending the Christmas party is not exempt unless it is a minor benefit.

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# Forsyths Knowledge

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2/ IT Manager

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**Example** - a small manufacturing company decides to have a party on its business premises on a working day before Christmas. The company provides food, beer and wine. The implications for the employer in this situation would be as follows:

If...	Then...
<ul style="list-style-type: none"> <li>● current employees only attend</li> </ul>	there are no FBT implications as it is an exempt property benefit
<ul style="list-style-type: none"> <li>● current employees and their associates attend at a cost of \$180 per head</li> </ul>	<ul style="list-style-type: none"> <li>● <b>for employees</b> – no FBT implications as it is an exempt property benefit, and the minor benefit exemption could also apply *</li> <li>● <b>for associates</b> – there are no FBT implications as the minor benefit exemption applies *</li> </ul>
<ul style="list-style-type: none"> <li>● current employees, their associates and some clients attend at a cost of \$365 per head</li> </ul>	<ul style="list-style-type: none"> <li>● <b>for employees</b> – there are no FBT implications as it is an exempt property benefit</li> <li>● <b>for associates</b> – a taxable fringe benefit will arise as the value is equal to or more than \$300</li> <li>● <b>for clients</b> – there is no FBT payable and no income tax deduction</li> </ul>

\*Where the benefits are indicated as qualifying for the minor benefits exemption, it is on the basis that the necessary conditions have been satisfied.

**Christmas party held off business premises** - the costs associated with Christmas parties held off your business premises (for example, a restaurant) will give rise to a taxable fringe benefit for employees and their associates unless the benefits are exempt minor benefits.

**Example** - another company decides to hold its Christmas function at a restaurant on a working day before Christmas and provides meals, drinks and entertainment. The implications for the employer in this situation would be as follows:

If....	Then...
<ul style="list-style-type: none"> <li>● current employees only attend at a cost of \$195 per head</li> </ul>	There are no FBT implications as the minor benefits exemption applies *
<ul style="list-style-type: none"> <li>● current employees and their associates attend at a cost of \$180 per head</li> </ul>	There are no FBT implications as the minor benefits exemption applies *
<ul style="list-style-type: none"> <li>● current employees, their associates and clients attend at a cost of \$365 per head</li> </ul>	<ul style="list-style-type: none"> <li>● <b>for employees</b> – a taxable fringe benefit will arise</li> <li>● <b>for associates</b> – a taxable fringe benefit will arise</li> <li>● <b>for clients</b> – there is no FBT payable and the cost of providing the entertainment is not income tax deductible.</li> </ul>

\*Where the benefits are indicated as qualifying for the minor benefits exemption, it is on the basis that the necessary conditions have been satisfied.

Further to the above, if you would like to talk over FBT and specifics relating to your business, please do not hesitate to call your Forsyths accountant.

With best wishes

The Forsyths Team

Source: ATO

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