



Auckland Chartered Accountants

**December 2022**

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## **Entertainment, FBT, and Christmas Gifts**

With the festive season well and truly upon us, we thought it would be timely to recap the tax treatment of Entertainment, Fringe Benefits, and Gifts.

### **What is Tax Deductible Entertainment Expenditure?**

Entertainment expenses are tax deductible if they are business-related i.e. they help the business earn income. Typical examples include;

- Entertaining existing or potential clients
- Events for employee

If the expenditure does not or is not intended to help the business earn income then it is not tax deductible.

### **50% vs 100% Deductible Entertainment Expenditure?**

Certain entertainment expenditure is only 50% deductible because it has a private element.

*Examples of 50% deductible entertainment expenses include;*

- Corporate boxes
- Charter boats
- Food and drink at work (other than light refreshments)
- Offsite food and drink
- Gifts of food and drink to clients

*Examples of 100% deductible entertainment expenditure include;*

- Entertainment expenditure while on business overseas
- Light refreshments at work such as morning and afternoon teas
- Entertainment for charitable purposes
- Food and drink provided at a conference (so long as the conference lasts for four consecutive hours or more)

### Client Gifts

- If you provide gift baskets to clients, any food and drink is only 50% deductible. Other items are however 100%.
- This means if you provide gift baskets with a mixture of food/drink and other items the IRD expects you to apportion the amounts accordingly.

### **Entertainment or Fringe Benefit Tax (FBT)?**

#### What is FBT?

A fringe benefit is a benefit enjoyed or received by an **employee** as a result of their employment (Note FBT does not apply to contractors). Common examples include;

- Motor vehicles available for private use
- Free, subsidised, or discounted goods and services

When an employer provides benefits to an employee they are subject to FBT.

#### When does entertainment become subject to FBT?

The key in determining if an expense is entertainment or subject to FBT is if the employee can choose when and where to enjoy the benefit.

Examples;

- Restaurant vouchers or Christmas Hams provided to employees are subject to FBT as the employee is free to choose when they enjoy the benefit
- Please note the examples above are 'unclassified benefits' and a de Minimis exemption of \$300 per quarter per employee applies (\$1,200 per annum if you file annually). If under this threshold you do not have to pay FBT on the unclassified benefit

### **Summary of Entertainment and FBT;**

- Dinner for staff or clients at a local restaurant= 50%
- Gift baskets to clients= Food & Drink 50%, Other items 100%
- Restaurant voucher to staff for Christmas= 100% but subject to FBT (De minimis exemption may apply)
- Afternoon tea provided for a staff birthday at work= 100%
- Christmas party held at work= 50%

## IRD Audit Insurance

As many of you will know, we work with [Accountancy Insurance](#) to offer Audit Shield. This covers the professional accounting and legal fees incurred when the IRD reviews or audits your business.

We don't want to send unwanted mail-outs. If you have been insured with Audit Shield this year or last, we will automatically send you an offer in February to insure/renew. Otherwise, please contact one of our team if you are interested or would like further information.

## Xero Gold Partner



We are pleased to announce we are now a Xero Gold Partner! Of course we also work with MYOB and a range of other software providers but it is great to reach this milestone with Xero. If you have any questions or are interested in learning more about Xero please get in touch with one of the team.

## Christmas Hours

Our offices will be closed from close of business Friday 23rd December and reopening on Monday 9th January 2022. If you need something urgent over this period please contact Callum on 021 150 2616.

We wish you all a safe and happy holiday period and look forward to working with you all in the new year.

 No photo description available.

Merry Christmas

## Callum, Greg, and the team at Auckland Chartered Accountants

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