



“The Bottom Line” SIMMONDS LE-FEVRE

Tax & Super Information that's Important to You

December 2024



Christmas & Tax

With the festive season just around the corner (or already under way), many business owners will be gearing up for year-end celebrations with both employees and clients.

Knowing the rules around FBT, GST credits and what is or isn't tax deductible can help avoid unwelcome surprises on the tax front.

Holiday celebrations generally take the form of Christmas parties and/or gift giving.

About this newsletter

Welcome to your tax and super update from Simmonds Le-Fevre. This newsletter is aimed at keeping you on top of the issues you need to know about and changes as they happen. If you have any queries don't hesitate to contact us.

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Parties

Where a party is held on business premises during a working day, is attended by current employees only and comes in at less than \$300 a head (GST-inclusive), FBT does not apply, the cost of the function is not tax deductible and GST credits cannot be claimed.

Where the function is held off business premises, say at a restaurant, or is also attended by the employees' partners, FBT applies where the GST-inclusive cost per head is \$300 or more, but not where the cost is

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below the \$300 threshold, as it would be regarded as a minor or infrequent benefit. Where FBT applies, it applies to the entire cost of the event, not just to the excess over \$300, while the cost of holding the function is tax deductible and GST credits can be claimed.

Where clients also attend, FBT will not apply to the cost applicable to them (not being employees), but those costs will not be tax deductible and GST credits will not be available.

Gifts

First, you need to work out whether the gift itself is in the nature of entertainment – for example, movie or theatre tickets, admission to sporting events, holiday travel or accommodation vouchers.

Where the recipient of an entertainment gift is an employee, and the GST-inclusive cost is below \$300, the minor or infrequent exemption may apply so that FBT is not payable, in which case the cost will not be tax deductible and GST credits are not claimable. For larger entertainment gifts to employees, however, FBT applies, the cost is deductible and GST credits can be claimed.

Where the gift is not in the nature of entertainment and it falls below \$300, the FBT minor or infrequent exemption may apply – for example, Christmas hampers, bottles of alcohol, pen sets, gift vouchers. But because the entertainment rules do not apply, the cost of the gift is tax deductible and GST credits are claimable.

Where a gift is made to a client, the \$300 FBT minor benefit exemption falls by the wayside, as long as it is not an entertainment gift and the gift was made in the reasonable expectation of creating goodwill and boosting future sales. Such gifts are uncapped (within reason) and are tax deductible to the business. GST credits are also claimable.

Best approach for employees

Provided it's not a regular thing, taking employees out for Christmas lunch or dinner escapes FBT, as long as the cost per head stays below the \$300 threshold. While the cost of the function will still be non-deductible, that has much less of a cash-flow impact on the business than the grossed-up FBT amounts.

Combined with a non-extravagant off-site Christmas party, making a non-entertainment gift costing up to \$299 is a very tax-effective way of showing your appreciation. Gift cards are always well-received and even where they can be used to make a wide variety of purchases (including theatre tickets and the like), they will not be regarded as an entertainment gift, which means the cost is tax deductible and GST credits can be claimed.

Best approach for clients

While FBT is off the table for business clients, making a non-entertainment gift (tax deductible; no dollar limit) is actually much more tax-effective than wining and dining a key client (non-deductible entertainment). If you put some thought into what gift to buy a client and in some cases deliver it yourself, you may make much more of an impact than joining them in one of many restaurant meals in their already crowded Christmas calendar. 📺



If you need help on the tax treatment of holiday celebrations and gifting, please give us a call.

This information has been prepared without taking into account your objectives, financial situation or needs. Because of this, you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs.