



# Fringe benefits tax (FBT) and entertainment for small business

## About this guide

This guide helps small business employers to understand how fringe benefits tax (FBT) and entertainment works and to decide whether or not they may have to pay FBT.

You should use this guide if you are a small business employer and you sometimes provide your employees and/or their associates with food and drink, gifts or leisure activities. Depending on the circumstances their provision may be classified as providing entertainment and you may have to pay fringe benefits tax (FBT).


In this guide, we help you to:

- decide whether you are providing entertainment to your employees
- determine when a benefit is exempt
- calculate the taxable value of entertainment benefits using the actual method, and
- keep records so that you can calculate your FBT payable.

We also:

- explain how you can reduce your FBT liability, possibly to nil, and
- provide many examples of the most common situations in which entertainment is provided by small businesses.

Fringe benefits provided by income-tax-exempt organisations are treated differently and are **not** explained in this guide. There are different rules for tax-exempt bodies because they do not pay income tax. If you are an income-tax-exempt organisation please refer to FBT and entertainment for non-profit organisations or FBT and entertainment for government.

 Although we generally refer to fringe benefits provided to employees by an employer, please note that fringe benefits can also be provided to employees' associates (such as a family member). Further, fringe benefits can also be provided by an associate of the employer or a third party by arrangement with the employer.

For information about other types of benefits, please refer to our publication [Fringe benefits tax - a guide for employers](#) (NAT 1054).

## Quick entertainment checklist - Are you providing entertainment for your employees?

As an employer, you will, from time to time, provide your employees with food and drink, gifts, and possibly leisure activities. This may happen in a variety of circumstances and in relation to a number of different employees and/or their associates.

- Christmas parties
- Business lunches with clients
- Birthday parties
- Golf days
- Product release functions
- Gym memberships
- Celebrations for achieving sales targets
- Farewell functions
- Reward and recognition functions
- Memberships to sporting clubs
- Anniversary dinners

If you sometimes provide these events for your staff you will need to know whether the events will be classified as entertainment and require you to pay fringe benefits tax (FBT).

## How fringe benefits tax works

### What is fringe benefits tax?

**Fringe benefits tax (FBT)** is a tax paid on certain benefits employers provide to their employees or their employees' **associates** (typically family members). FBT is separate from income tax and is based on the taxable value of the various fringe benefits provided.

The FBT year runs from 1 April to 31 March.

## What is a fringe benefit?

A **fringe benefit** is a benefit provided to an employee (or their associate) because that person is an employee. Benefits can be provided by an employer, an associate of the employer, or by a third party under an arrangement with the employer. An employee can be a current, future or former employee.

Benefits include rights, privileges or services. For example, you provide a fringe benefit when you:

- allow an employee to use a work car for private purposes
- give an employee a cheap loan, or
- provide social functions or leisure activities for your employees.

## Why a tax on fringe benefits?

FBT was introduced to improve the fairness of the taxation system. It was designed to overcome deficiencies in the income tax law which allowed fringe benefits to be, in effect, a form of tax-free income. FBT ensures that tax is paid on those fringe benefits provided in place of, or in addition to, salary or wages of employees.

## Who pays fringe benefits tax?

As an employer, you have to pay FBT, even if the benefit is provided by an associate or by a third party under an arrangement with you. For example, you may deal with a supplier who, in turn, provides free goods to your employees.

It makes no difference whether you are a sole trader, partnership, trust, corporation, unincorporated association or government body, or whether you have to pay other taxes such as income tax.



### Are you providing yourself with fringe benefits?

If you are a director and are conducting your business through a company or trust structure, then you may be an employee of the company or trustee. This may mean that you are inadvertently providing yourself with fringe benefits.

## What is entertainment?

When we talk about you providing entertainment we mean:

- providing entertainment by way of food, drink or recreation
- providing accommodation or travel in connection with such entertainment, or
- paying or reimbursing expenses incurred in obtaining something covered by the above points.

Some examples of providing entertainment are:

- business lunches and drinks and staff social functions such as parties
- tickets to sporting or theatrical events, sightseeing tours or holidays, and
- accommodation and travel in connection with entertaining clients and/or employees over a weekend at a tourist resort.



### What is recreation?

Recreation includes amusement, sport and similar leisure time activities, for example, a game of golf, a gym membership, theatre or movie tickets, a joy flight or a harbour cruise.

## Steps to take if you provide food and drink or recreation to your employees

Step	Action
1	Determine whether the food, drink or recreation is entertainment
2	Consider if an exemption applies
3	Decide if you can reduce your FBT payable on the food, drink or recreation
4	Keep the appropriate records
5	Calculate your FBT liability

<b>6</b>	If required, report an amount on the employee's payment summary
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## Is the food or drink entertainment?

To determine whether food or drink provided to a person is entertainment, you need to look at the following factors. **None of the factors on their own** will determine if the food and drink provided is entertainment, but (a) and (b) are considered the more important factors.

Factors to consider		Explanation
<b>a</b>	<b>Why</b> is the food or drink being provided?	<p>Are you providing the food or drink for employees:</p> <ul style="list-style-type: none"> <li>• to complete the working day in comfort, or</li> <li>• to enjoy themselves?</li> </ul> <p>Providing refreshments to enable the employee to complete the working day in comfort is not generally entertainment.</p> <p>Providing food or drink in a social situation where the purpose of the function is for employees to enjoy themselves is likely to be entertainment.</p>
<b>b</b>	<b>What</b> type of food or drink is being provided?	The more elaborate a meal, the more likely it becomes that entertainment arises from eating the meal.
<b>c</b>	<b>When</b> is the food or drink being provided?	Food or drink provided during work time, during overtime or while an employee is traveling for work is less likely to be entertainment. This is because in the majority of these cases, the food or drink is provided for a work-related purpose rather than for an entertainment purpose.
<b>d</b>	<b>Where</b> is the food or drink being provided?	<p>Food or drink provided on your business premises or at the employee's usual workplace is less likely to be entertainment.</p> <p>Food or drink provided off your business premises, such as at a function room, hotel, restaurant or consumed with other forms of entertainment, is more likely to be entertainment.</p>

### Example: Determining whether food or drink is entertainment

Gabrielle is currently employed by Twinsprings Pty Ltd and will soon be leaving the company for an overseas position in Canada. In recognition of Gabrielle's loyalty and dedication to the company over the last six years her employer, Paul, wants to host a late afternoon farewell function at a local hotel. Drinks including alcohol and light refreshments such as finger foods will be provided to invited staff, clients and Gabrielle's family members. Paul has hired a mini bus to transport guests to the venue.

#### a. Why is the food or drink being provided?

The food and drink in this situation is being provided for a social situation where the purpose of the function is for employees, associates and clients to enjoy themselves.

#### b. What food or drink is being provided?

Light refreshments are often not considered to be entertainment however as alcohol will be provided in this situation it is considered to have a social context.

#### c. When is the food or drink being provided?

Although in this instance food or drink will be provided during working hours it has the character of entertainment as it a social function.

#### d. Where is the food or drink being provided?

The food or drink is being provided in a private function room at the local hotel. Food or drink provided in a function room, hotel, restaurant or coffee shop is more likely to be entertainment.

## Is this activity entertainment?

Looking at the answers to these questions, providing the farewell function for Gabrielle as outlined above would be classified as entertainment.

## Is it an exempt benefit?

If you provide only exempt benefits, you will not have to pay FBT. Some common exempt benefits are outlined below.

## Minor benefits exemption

Some minor benefits you provide may be exempt from FBT. To determine whether the minor benefits exemption applies, you need to:

Step	Action
1	Determine whether the taxable value of the benefit is less than \$300.  If the taxable value: <ul style="list-style-type: none"> <li>• is \$300 or more, the minor benefits exemption does not apply, or</li> <li>• is less than \$300, continue to step 2.</li> </ul>
2	Determine whether it is unreasonable to treat the minor benefit as a fringe benefit.

### How do you decide whether the minor benefit exemption would apply?

To determine whether it is unreasonable for a benefit to be treated as a fringe benefit, you need to look at five factors. None of the factors outlined below will determine if the benefit is an exempt minor benefit on its own. You need to look at all the factors.

Factors to consider		Explanation
1	How frequently and regularly benefits that are identical or similar to the minor benefit are provided.	The more frequently and regularly identical or similar benefits are provided, the less likely it is that the benefit will be an exempt minor benefit.
2	The total of the values of the minor benefit and identical or similar benefits to the minor benefit.	The greater the total of the value of the benefit and other identical or similar benefits, the less likely it is that the benefit will be an exempt minor benefit.
3	The likely total of the value of other associated benefits, that is, those provided in connection with the minor benefit.	The greater the total of other associated benefits, the less likely it is that the minor benefit will be an exempt benefit.
4	The practical difficulty for you in determining the value of the minor benefit and any associated benefits.	The more difficult it is for you to determine the value, the more likely it is that the benefit will be an exempt minor benefit and,  The more difficult it is for you to keep the necessary records in relation to the benefit, the more likely it is that the benefit will be an exempt minor benefit.
5	The circumstances in which the benefit and any associated benefits were provided.	If the benefit was provided as a result of an unexpected event, such as overtime, it is more likely to be an exempt minor benefit.  If the benefit is mainly given to the employee as a reward for services (that is, it is remuneration), it is less likely to be an exempt minor benefit.

### Minor benefits exemption examples

Example	Minor benefits exemption applies	Minor benefits exemption does not apply
Kate sends chocolates and flowers to Jane, an employee, on the birth of her daughter. The chocolates and flowers have a taxable value of \$105.	X  This is an exempt minor benefit because the chocolates have a taxable value of less than \$300 and, looking at the five factors, it would be unreasonable to treat the chocolates and flowers as a fringe benefit.	

John provides his employee Steve with a year's membership, value \$850, to his favourite football club.		X This would not be an exempt minor benefit because the value of the membership is \$300 or more.
Every Friday Angela takes her 2 employees to a local hotel for lunch. The lunch for each employee usually consists of a main course and a couple of drinks and costs on average \$45.		X The value of the Friday lunch is only \$45. However, looking at the five factors, it would be reasonable to treat the regular Friday lunches as a fringe benefit. They are not an exempt minor benefit.
The manager of a small business gives Graham, an employee, a birthday present of two theatre tickets. The value of the tickets is \$234.	X This is an exempt minor benefit because the value of the tickets is less than \$300 and, looking at the five factors, it would be unreasonable to treat the tickets as a fringe benefit.	

## Food or drink consumed on the premises

Food or drink you provide:

- to current employees
- on your business premises
- on a working day

is exempt from FBT.

The food or drink is exempt regardless of whether it is prepared on your premises and whether it is entertainment. (Note that a corporate box is not considered part of your business premises).

But food or drink provided on your business premises to associates of employees (for example, spouses) is not exempt from FBT. Where you provide food and drink on the same occasion to both employees and their associates, you may need to apportion the expenditure on a per head basis.

### **Example: Food and drinks provided to employees and associates on business premises**

You provided alcoholic drinks and a buffet meal for 10 current employees and their spouses on business premises on a work day. The cost was \$1,000. On a per head basis the cost of the entertainment provided to employees was \$50, which is exempt from FBT because the food and drink was provided on a working day on the business premises. The cost relating to entertaining the associates (\$50) will be exempt from FBT if the minor benefits exemption applies.

## Taxi travel

If you pay for an employee's taxi travel, it will be an exempt benefit if the travel is a single trip beginning or ending at the employee's place of work. This exemption only applies to employees, it does not apply to employees' associates.


Taxi travel	Exempt from FBT	FBT applies
Employee travels from work to an external venue (such as a restaurant or home).	X	
Employee travels from an external venue (such as a restaurant or home) to work.	X	

## How to calculate the taxable value of entertainment

### The actual method of valuing entertainment

The information, tables and examples in this guide are all based on choosing the **actual** method of valuing entertainment. The taxable value of the food or drink or recreation, and the associated accommodation or travel, is the **actual** amount you pay for the

benefit of the employee.

-  If you use the **actual** method of valuing entertainment FBT will only apply to entertainment you provide to your employees and/or their associates. Entertainment you provide to your clients will **not** be subject to FBT under this valuation method.

When you provide entertainment to both employees and non-employees (for example, clients), only the part of the entertainment relating to employees and their associates is subject to FBT. If you cannot easily determine the actual expenditure, you can use a 'per head' basis of apportionment.

#### **Example: apportioning per head**

Mary entertains three of her employer's clients at a local restaurant. Her employer uses the actual method to value entertainment. Mary pays, and is reimbursed, for the full cost of the meals. The benefit provided to Mary is an expense payment fringe benefit. The taxable value of that benefit is 25% of the amount reimbursed to Mary.

## Hiring or leasing entertainment facilities

Where you provide entertainment by hiring or leasing entertainment facilities (entertainment facility leasing expenses), the taxable value is the cost of the activity.

## Other methods of valuing entertainment

There are two other methods of valuing entertainment. These methods are for valuing meal entertainment which does **not** include recreation.

- the 50:50 split method for valuing meal entertainment fringe benefits and entertainment facility leasing expenses, or
- the 12-week method for valuing meal entertainment fringe benefits

Meal entertainment includes:

- providing entertainment by way of food or drink
- providing accommodation or travel in connection with, or to facilitate the provision of, such entertainment, or
- paying or reimbursing expenses incurred by the employee for the above.

Recreation includes:

- amusement, sport and similar leisure time activities, for example, a game of golf, theatre or movie tickets, a joyflight or a harbour cruise.

If you choose to classify a fringe benefit as a meal entertainment fringe benefit, you have to classify all fringe benefits arising from providing meal entertainment during the FBT year as such.

Both of these methods are based on your **total** meal entertainment expenditure. This includes expenditure that may otherwise be exempt from FBT or not normally subject to FBT, for example providing food and drink to employees on your business premises and/or providing meals for clients.

You must decide to classify fringe benefits as meal entertainment no later than the day your FBT return is due to be lodged with us or if you do not have to lodge, by May 21.

## Which method is best for you?

When determining which meal entertainment valuation method is best for your organisation, factors to consider are:

- who you provide entertainment to (employees, associates or clients)
- how often you provide entertainment
- which method results in the lowest FBT liability, and
- administration costs of each method for your organisation.

## How to reduce the FBT you pay

There are various ways in which you can reduce the FBT you pay. In some cases, your FBT payable could be reduced to nil.

You can reduce your FBT liability in the following ways.

### Provide benefits which are income tax deductible

You may not have an FBT liability if you give an employee a benefit that they would otherwise have been able to claim as an

income tax deduction.

**Example: benefit where the employee is entitled to an income tax deduction**

Sue, the manager of a hairdressing salon, pays for two senior stylists to attend a hair colouring course run by a hairdressing association. The course, paid for by the business, is to reward the senior stylists for their work performance over the last year.

There is no FBT payable because the two employees would be entitled to a full income tax deduction for the cost of attending the course, if they had paid for it themselves.

## Seminars

### What is a seminar?

- Any training session, including a conference, convention, lecture, meeting, speech, question and answer session or educational course.
- A planning day where employees discuss general policy issues relevant to the internal management of your business conducted at an external premises that are available for conferences, training or seminars.

### What is not a seminar?

- A business meeting, where the main purpose of the meeting is to give or receive information, or discuss matters relating to the organisation.
- A presentation, where the main purpose is to promote or advertise a business (or prospective business) or its goods or services.

### Otherwise deductible rule

The otherwise deductible rule may apply to food or drink provided at seminars. If your employee would have been able to claim an income tax deduction for the cost of attending the seminar had they paid for it, the otherwise deductible rule applies as follows.

#### Food or drink is not entertainment

If the food or drink	Then
Does not amount to entertainment	The registration fee would have been deductible in full and FBT does not apply.

#### Food or drink is entertainment

If the food or drink does amount to entertainment and	Then
is reasonably incidental to the employee attending seminars that go for at least four hours	FBT does not apply
is not reasonably incidental to the employee attending seminars that go for at least four hours	Only that proportion of the registration fee which does not relate to the food or drink would have been deductible and FBT does apply

### What does reasonably incidental mean?

Food or drink is reasonably incidental to a seminar if it:

- is provided for sustenance because of the duration, time of day or location of the seminar
- is provided immediately before, during or immediately following working sessions of the seminar, and
- is available to all participants.

### Which part of the seminar can be included in the four hours?

The four hours does not include any part of the seminar that occurs during a meal or any breaks during the seminar for meals, rest or recreation.

**Example: Food and drink provided at seminar is not entertainment**

A small accounting firm sends an employee to a seminar about current global accounting trends.. The seminar is held from 9.00am to 4.00pm at a city hotel. Morning and afternoon tea and a light lunch are provided during the day. The employer pays the organisation presenting the seminar.

The food or drink provided in these circumstances does not amount to entertainment and is therefore not meal entertainment. It is a property fringe benefit. The full cost of attending the CPD session would have been income tax deductible to the employee had the employee paid for it. The taxable value of the property fringe benefit can be reduced to nil under the 'otherwise deductible' rule.

## Use employee contributions

You can reduce your FBT liability by having your employee contribute towards the cost of a fringe benefit. The contribution is usually a cash payment made to you or the person who provided the benefit. Under the valuation rules for most categories of fringe benefits, the taxable value of a fringe benefit can be reduced by the amount of the employee contribution.

### Example: employer uses employee contributions

A company golf team has a golfing day once a month and once a quarter has a golfing day with clients. The green fees are \$45 a month. The employer pays for the green fees and employees reimburse their employer 75% of the green fees. The employer will only have to pay FBT on the 25% of the green fees that are not reimbursed.

## Provide a cash bonus

Provide you employee with a cash bonus instead of a benefit. As it is the employer who pays FBT, if a cash bonus is provided to an employee, it would be the employee who would pay income tax on the bonus.

## Income tax deductions and entertainment

As a general rule, you can claim an income tax deduction for the cost of providing entertainment that is a fringe benefit. If you can claim GST credits for this cost as well, you claim the GST-exclusive amount as an income tax deduction.

## Entertainment table - income tax deductions

This table gives a simplified summary of the FBT and income tax consequences from providing entertainment to employees and others. The table is not intended for use by income tax-exempt employers.

Situation	Income tax	FBT
Employee takes two clients to lunch at a restaurant – cost \$150	<b>Employee's portion</b> \$50 tax deductible  <b>Client's portion</b> \$100 non-deductible	<b>Employee's portion</b> \$50 fringe benefit  <b>Client's portion</b> No FBT
Employee has meal in restaurant while travelling on business trip	Tax deductible	No FBT ('otherwise deductible' rule)
Employee has meal in an 'in-house canteen'	Tax deductible	Exempt from FBT
Employer provides sandwiches and juice for working lunch in office (not entertainment)	Tax deductible	Exempt from FBT
Employer provides substantial lunch with wine for employees in office but not in 'canteen'	Non-deductible	Exempt from FBT
Employer provides social function for employees in office	Non-deductible	Exempt from FBT
Employer provides social function for employees and associates in office	<b>Cost per employee</b> Non-deductible  <b>Cost per associate</b>	<b>Cost per employee</b> Exempt benefit  <b>Cost per associate</b>

Tax deductible

Taxable fringe benefit

## GST credits and entertainment

As a general rule, you can claim GST credits for the cost of providing entertainment that is a fringe benefit.

- !** Exempt benefits are not fringe benefits. They are not income tax deductible nor can you claim GST credits for the cost of providing them.

## Common entertainment scenarios

### Christmas party on the work premises

#### Christmas party held at the workplace: cost is less than \$300

A company holds a Christmas lunch on its business premises on a working day. Employees, their partners and clients attend. Food and drink is provided at the party and the company provides taxi travel home from the party. The cost per head is \$125.

#### Is entertainment being provided?

Yes – providing a party for employees, associates and clients is entertainment, because the purpose of the function is for people attending to enjoy themselves.

### Employees

#### Does an exemption apply?

- Food and drink: The food or drink provided to employees is exempt from FBT because it is provided and consumed on a working day on the business premises.
- Taxi travel: The taxi travel is exempt from FBT because there is a specific FBT exemption for taxi travel provided to an employee directly to or from the workplace.

#### Income tax and GST credits

The employer could not claim an income tax deduction or GST credits for the food, drink or taxi travel provided for employees, associates or clients.

### Associates

#### Does an exemption apply?

- Food, drink and taxi travel: The food, drink and taxi travel provided to the employees' partners (associates) is exempt from FBT because of the minor benefits exemption.
- Clients food drink and taxi travel: There is no FBT on benefits provided to clients

#### Income tax and GST credits

The employer could not claim an income tax deduction or GST credits for the food, drink or taxi travel provided for employees, associates or clients.

## Gym membership

### Gym Membership costs \$480 per employee

A conveyancing firm pays a one year gym membership costing \$480 for the director of the company and each of its employees.

#### Is entertainment being provided?

Yes - paying for employees to have membership of a gym is providing recreational entertainment.

### Director

#### Does an exemption apply?

The company would have to pay FBT on the gym membership provided to the director, because the director is an employee of the company. The minor benefits exemption does not apply in this case because the cost of the gym membership is \$480 per employee.

## Other employees

The company would have to pay FBT on the gym membership provided to its other employees. The minor benefits exemption does not apply in this case, because the cost of the gym membership is \$480 per employee.

### Income tax and GST credits

The employer can claim an income tax deduction and GST credits for the cost of providing the gym membership to its employees and for the FBT paid.

## A holiday as a reward

### Holiday given as a reward: cost is \$300 or more

A computer manufacturer offers a reward to employees of Home Office, a retail computer store. The retailer agrees that the manufacturer can offer the reward to its employees. If an employee sells 200 computers in a month they will receive a holiday consisting of two nights' accommodation at the coast and two tickets to the aquarium including a swimming-with-sharks experience.

The total value of each holiday package is \$600.

### Is entertainment being provided?

Yes – providing employees with a holiday and tickets to the aquarium is recreational entertainment.

## Employees

### Does an exemption apply?

Accommodation and tickets: No exemption applies to the accommodation and tickets given to the employee who meets the sales target. The minor benefits exemption does not apply in this case because the value of the holiday package is \$600.

### Who pays the FBT?

The retailer would pay the FBT in this case as the benefits are being provided under an agreement with the manufacturer.

### Income tax and GST credits

The retailer can claim an income tax deduction for the FBT paid.

The manufacturer can claim an income tax deduction and GST credits on the cost of purchasing the accommodation and tickets.

## Golf day for employees, associates and clients

### Golf day for employees, clients and associates: cost is \$320 per person

Paul, an employee, takes several clients and his partner to a corporate golf day paid for by his employer. The event is not held on a working day and Paul has been provided with taxi vouchers to escort his clients to and from the event.

### Is entertainment being provided?

Yes, attending a golf day is a social event therefore the purpose of the day is entertainment related.

## Employees

### Does an exemption apply?

The food, drink and taxi travel is not exempt from FBT in this circumstance. The minor benefit exemption will not apply because the cost per person is \$320. A taxi travel exemption will not apply as the trip did not begin or end at the workplace.

### Income tax and GST credits

The employer is entitled to an income tax deduction and GST credit for the cost of providing the benefit and the FBT paid.

## Associates

### Does an exemption apply?

The food, drink and taxi travel is not exempt from FBT in this circumstance. The minor benefit exemption will not apply because the value of the benefit is \$320.

### Income tax and GST credits

The employer is entitled to an income tax deduction and GST credit for the cost of providing the benefit and the FBT paid.

## Clients

### Does an exemption apply?

There is no FBT payable on the food drink, and taxi travel provided to clients.

**Income tax and GST credits**

The employer cannot claim an income tax deduction or GST credits for food or drink provided to the client.

## Celebration afternoon tea

**Afternoon tea provided on the business premises: cost is \$25 per head**

Anjelica is getting married. To celebrate the occasion her employer holds a 'cheese and wine' afternoon tea on the work premises and invites Anjelica's clients and associates and other staff members.

**Is entertainment being provided?**

Yes, the afternoon tea provided to employees, associates and clients in this situation is a social event and is therefore entertainment.

**Employees****Does an exemption apply?**

The exemption for food and drink provided and consumed on business premises will apply to the employees as the food and drink provided is consumed by the employee on a working day at the work premises.

**Income tax and GST credits**

The employer could not claim an income tax deduction or GST credits for food or drink provided.

**Associates****Does an exemption apply?**

The food and drink provided to the employee's associates is exempt from FBT because of the minor benefits exemption. That is, the cost of the activity is less than \$300 per employee and, considering the five factors, it would be unreasonable to treat the benefit as a fringe benefit.

**Income tax and GST credits**

As the minor benefit exemption applies the employer could not claim an income tax deduction or GST credits for food or drink provided.

**Clients**

There is no FBT on benefits provided to clients.

**Income tax and GST credits**

The employer could not claim an income tax deduction or GST credits for food or drink provided to the clients.

## Business planning day

**A planning day where food and drink are provided in connection to the days activities: cost is \$125 per head**

An insurance company organises a planning day for their managers at a conference centre. Morning and afternoon tea and a three course lunch (excluding alcohol) will be provided to the managers during the course of the day.

**Is entertainment being provided?**

The provision of light meals is not considered as entertainment. Although the lunch provided in this situation is work-related, the three course meal would be elaborate and therefore considered to be entertainment.

**Employees****Does an exemption apply?**

The exemption for food and drink provided and consumed on the employer's premises on a work day will not apply in this situation to the lunch as it has been provided off the employer's premises. However, the minor benefit exemption applies as the cost of the activity is less than \$300 per employee and, considering the other factors, it would be unreasonable to treat the benefit as a fringe benefit.

**Income tax and GST credits**

As the minor benefit exemption applies the employer could not claim an income tax deduction or GST credits for food or drink provided.

**Reporting on employees payment summaries**

If you provide fringe benefits with a total taxable value of more than \$2,000 to an employee in an FBT year, you must report the grossed-up taxable value of the fringe benefits on the employee's payment summary for the corresponding income year (1 July to 30 June).

**Recreation** must be reported on your employee's payment summary.

However, the following fringe benefits are **excluded** from the reporting requirements. Although they are excluded from the reporting requirements, you still need to pay FBT on them:

- entertainment by way of food and drink, and benefits associated with that entertainment, such as travel and accommodation, and
- hiring or leasing entertainment facilities such as corporate boxes.



Exempt benefits are not fringe benefits. They are not reportable on your employee's payment summary.

## Record keeping

You should record information relating to the entertainment provided so that the taxable value of the fringe benefit can be calculated. You should record:

- the date you provided the entertainment
- who is the recipient of the entertainment (are they an employee, associate of the employee or another person)
- the cost of the entertainment
- the kind of entertainment provided, and
- where the entertainment is provided.

We have provided a sample worksheet on the next page that you can use to record your entertainment expenditure.

## Definitions

### Actual method

The actual method is the default method of valuing your entertainment. That is, you have not elected to value your entertainment as meal entertainment or the 50:50 split method of valuing entertainment facility leasing expenses. The taxable value is the actual cost of providing the entertainment.

### Associates

Associates include people and entities closely associated with you (or your employees), such as relatives, or closely connected companies or trusts.

### Employee contribution

An employee or recipient's contribution generally refers to the amount of consideration paid to an employer or provider by an employee or recipient in relation to the fringe benefit. It is reduced by the amount of any reimbursement paid to the employee or recipient related to that consideration. The employee or recipient's contribution must be made from the employee's after-tax income.

An employee contribution may be assessable income in the hands of the employer (as a general rule, the costs incurred by the employer in providing fringe benefits are income tax deductible).

### Entertainment facility leasing expenses

Entertainment facility leasing expenses are expenses you incur in hiring or leasing:

- a corporate box
- boats or planes for providing entertainment, or
- other premises or facilities for providing entertainment.

Expenses (or parts of expenses) that are not entertainment facility leasing expenses are:

- expenses for providing food or beverages, and
- expenses for advertising that would be an allowable income tax deduction.

### Excluded benefits

Excluded fringe benefits are certain fringe benefits you don't have to report on employees' payment summaries.

### Exempt benefits

Exempt benefits are those benefits you provide for which you don't have to pay FBT.

### Expense payment fringe benefit

You may provide an expense payment fringe benefit if an employee incurs expenses and:

- you reimburse them for the expenses, or
- you pay a third party for the expenses.

The expenses can be business or private expenses or a combination of both, but they **must be incurred by the employee**.

If you incur the expense, for example through a corporate credit card, you don't have an expense payment fringe benefit. You could, however, have a property or residual fringe benefit depending on what is paid for.

### **Fringe benefit**

A fringe benefit is a benefit provided to an employee (or their associate, such as a family member) because that person is an employee. Benefits can be provided by an employer, an associate of the employer, or by a third party under an arrangement with the employer. An employee can be a current, future or former employee.

### **Fringe benefits tax**

Fringe benefits tax (FBT) is a tax paid on certain benefits employers provide to their employees or their employees' associates (typically family members). FBT is separate from income tax and is based on the taxable value of the various fringe benefits provided.

### **Meal entertainment**

Providing meal entertainment fringe benefits means:

- providing entertainment in the form of food or drink
- providing accommodation or travel connected with such entertainment, or
- paying or reimbursing expenses in obtaining a benefit covered by the above points.

### **NAT number**

Most of our publications have a NAT number (our catalogue number), which we generally show in brackets after the title of the publication, for example, *Tax basics for small business* (NAT 1908).

### **Payment summary**

Under the PAYG withholding system, payers are required to provide payees with a payment summary, which shows total payments made and the amount of tax withheld during the financial year.

### **Property fringe benefit**

A property fringe benefit may arise when you provide an employee with property, either free or at a discount. For FBT purposes, property includes:

- all goods, for example, food or drink
- real property, for example, land and buildings, and
- other property, for example, shares or bonds.

### **Reportable fringe benefits**

If you provide fringe benefits with a total taxable value of more than \$1,000 to an employee in an FBT year (1 April to 31 March), you must report the grossed-up taxable value of the benefits on the employee's payment summary for the corresponding income year (1 July to 30 June). These are called reportable fringe benefits.

### **Residual fringe benefit**

Any fringe benefit that does not fit into one of the other 12 categories of fringe benefits is called a residual benefit. A residual fringe benefit may arise when you provide an employee with any right (such as a privilege, service or facility that is not one of the specific types of fringe benefits. For example, hiring a bus to take employees to a party is a residual fringe benefit.

### **Taxable value**

This is the value of fringe benefits that you use as a basis for calculating your FBT liability. There are different rules for calculating the taxable value of the different types of fringe benefits.



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## **Our commitment to you**

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that

into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

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