



FBT and the Office Christmas Party

There two important points you need to know. Firstly, that you are better to pay your staff a Christmas bonus and let them throw their own Christmas party. Second point is that there is no way you can dress up a Christmas party to be anything else but entertainment.

Now just in case you have heard to the contrary, here is why:

Why Pay a Bonus Instead?

The bonus will be taxed at your employee's marginal tax rate rather than the maximum rate applicable to fringe benefits. Though fringe benefits tax is only applicable if the benefit received is less and \$300 per person per benefit. Per person means that you get another \$300 for the spouse of an employee and per benefit means that if you give them a Christmas present as well that gets another \$300 threshold. But at least the present isn't considered entertainment, that is as long as it is not movie tickets or something.

That is the catch, entertainment is not tax deductible. For discussion on why a Christmas party will always be considered entertainment see much further down, but for the moment just trust me on that one.

Entertainment is not tax deductible and of course you are not entitled to a GST input credit as a result. The only exception from this is if the entertainment is subject to FBT. Then it is considered a deductible fringe benefit first and entertainment second. Here is the catch, something to get very clear. If the value of the Christmas party per head is under \$300 then it is exempt from FBT but entertainment so not tax deductible and no input credit. If it is over \$300 per head then subject to FBT so tax deductible and input credit available.

The reality is your Christmas party is going to cost less than \$300 per head. So, no tax deduction or input credit on the expense. This effectively means that the cost of the Christmas party is going to be taxable as profit in the employer's hands. Now you would hope that the employer's tax bracket is higher than the employees so why not give them a bonus instead and let them organise their own party?

Christmas Party can't be Disguised

TR 97/17 is the ATO ruling on entertainment. It does not class finger food at the workplace during normal working hours as entertainment but add alcohol to the mix and you have crossed the line. Further, at paragraph 23(a) it is clear that any food or drink provided "in a social situation where the purpose of the function is for employees to enjoy themselves has the character of entertainment".

Merry Christmas to you too ATO

References – TR97/17, FBTA 136(1) and 58P