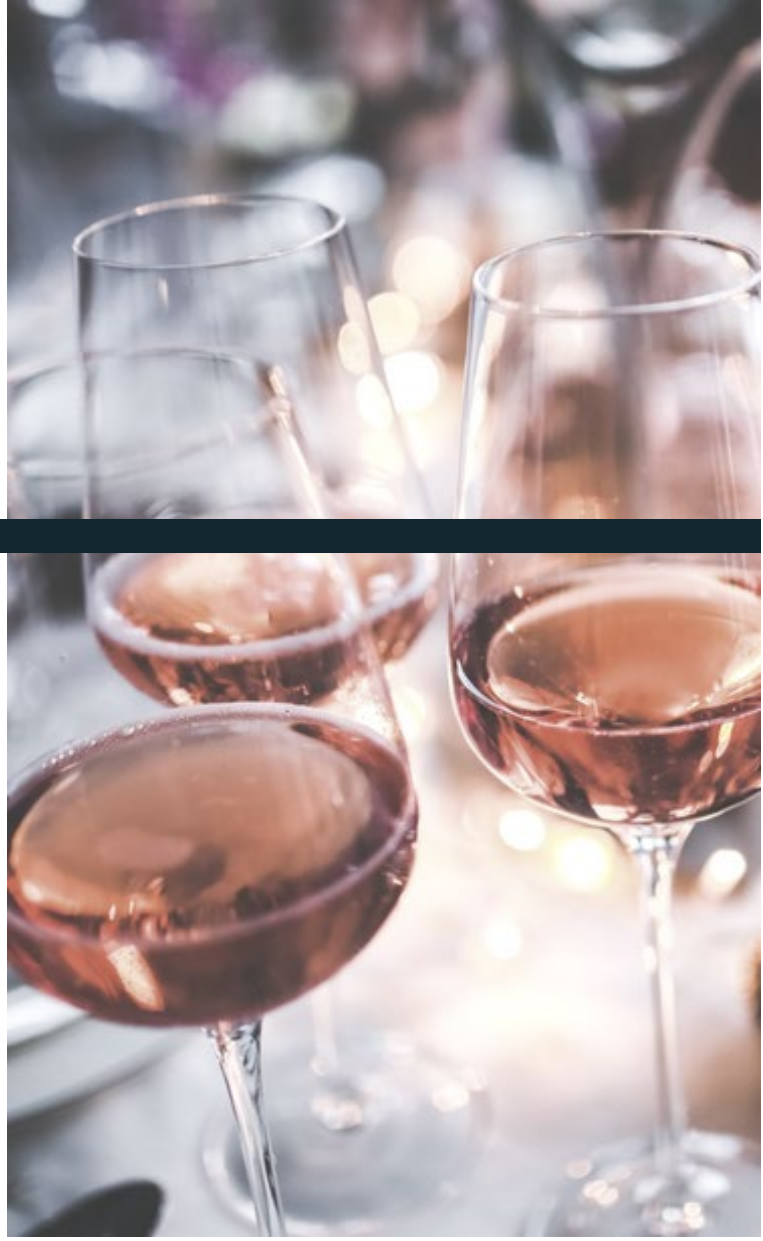
ENTERTAINING, MEALS AND FBT

TIPS & TRAPS



An everyday occurrence across the business landscape in Australia is the practice of **taking both existing and potential clients out for a meal** to cement the business relationship, with the cost of this meal often covered by one party.

Equally, business owners commonly reward staff by **taking high performing employees out for lunch** and covering the cost.

ARE THE COSTS OF THESE **MEALS TAX DEDUCTIBLE?**

After all, it was a genuine business expense surely, I can claim back the GST and claim a tax deduction?

Meal Entertainment is tax deductible (and GST claimable) to the extent that FBT is payable. The case outlined above is a clear example of "Meal Entertainment". Unless the business owner wants to pay the appropriate amount of fringe benefits tax (FBT) no deduction is allowed and the GST cannot be claimed.

The **provision of meal entertainment is defined as**:

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

Considering this, **some of the more common practices that are included as meal entertainment** would be:

- taking your employees out for an elaborate lunch
- meeting with clients at a café or restaurant for a meal.
- social functions, such as Christmas parties, where food or drink is supplied.

CONSEQUENCES

The amount of FBT payable is dependent on which of the 2 main valuation methods are used. Only 1 valuation method can apply for each FBT year. If there are no exemptions available, the FBT consequences of providing meal entertainment expenses are, by example using the 2023 FBT rates:

DETAIL	AMOUNT
Cost of Employee XMAS party (inc. GST)	1,500.00
Gross up rate*	2.0802
Taxable value of event	3,120.30
FBT Rate	47%
FBT Expense	1,466.54

*all fringe benefits are subject to a gross up rate.

Where FBT is paid the cost of the meal entertainment benefit (in this case the Xmas party) is deductible and the GST can be claimed on your next BAS.

SUSTENANCE

Sustenance is a term used to describe food or drink that is not in the nature of meal entertainment.
Examples of sustenance include:

1. Morning and afternoon teas
2. Lunch on premises provided during a meeting or training
3. Meals consumed whilst on overnight travel (may be elaborate and include alcohol)
4. Meals consumed whilst attending training or a business conference.

Sustenance is not subject to FBT, is Tax Deductible and the GST credits are claimable.

EXEMPTIONS

The **two most common exemptions available** that eliminate the FBT liability are outlined below:

There are some exemptions allowed that will reduce the taxable value of meal entertainment benefits to Nil. However, where this is the case, no tax deduction can be claimed, and neither can the GST.

MINOR AND INFREQUENT EXEMPTION – (only available when valuing meal entertainment using the actual method)

The most common exemption is the minor and infrequent exemption which states:

- The GST inclusive cost of the benefit is less than $300 (per person); and
- The benefit is not provided frequently.

Both conditions above must be satisfied for the meal entertainment benefit to be exempt. For example, taking an employee out to lunch to reward high performance would be exempt as it would be an infrequent occurrence and the cost would be less than $300.

Alternatively, if taking your employees out to lunch is a regular weekly occurrence for which the employer covers the cost, this no longer satisfies the infrequent condition above and the benefits are subject to FBT, even though the cost is less than $300 per person.

IN HOUSE MEALS

Simple meals (e.g. sandwiches and juice) provided to your employees within your office during normal business hours to enjoy at lunch are not subject to FBT but are deductible.

Be cautious though if the meals take on an entertaining nature, such as including alcohol or multiple courses, these will probably alter the characteristic of the benefit being provided and the tax deduction may be lost. Examples of entertaining on premises would be Friday night drinks, work functions, Christmas parties etc

In conclusion, the provision of meal entertainment benefits can be a taxation minefield. We strongly suggest that if you have questions regarding your business practices and how you reward your employees, please contact your advisor at Hill Accounting Services today.

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