



University of  
South Australia

## Memorandum

**To:** Mike Royans – Manager: Financial Support Services  
**Copy:** Sam Cooper – Manager: Commercial Support  
**From:** Kristian Thoroughgood – Tax Accountant  
**Date:** 3 December 2008  
**Subject:** **FBT - Christmas parties & gifts to employees**

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### PURPOSE

A timely tax reminder for those planning or approving staff Christmas parties and functions.

### BACKGROUND

By planning ahead for potential Fringe Benefits Tax (FBT) liabilities before a function, you can properly manage your tax costs. UniSA policy provides that the cost of FBT for these functions is charged back to the relevant cost centre, so factoring this into your budgets before incurring the expense is important.

### DISCUSSION

#### ***Tis the season... for entertainment***

At this festive time of year, many divisions, units and schools will be rewarding their staff's hard work and dedication over the last 12-months by throwing a celebratory Christmas lunch or dinner.

For FBT purposes, most functions thrown by UniSA require a detailed analysis of purpose and location to determine whether UniSA is providing 'entertainment'. This is not the case for Christmas parties. The Australian Taxation Office (ATO) has a clearly expressed view that providing a Christmas party to your employees and employee's associates is **entertainment**, due to the social/enjoyment aspect of the party.

#### ***What if we don't call it a Christmas party?***

Simply renaming a function will not result in lower FBT, as the ATO will look at the substance of the benefits provided to employees. If your function looks like a Christmas party, is held at the appropriate time, and has a clear social aspect, it will be classified as entertainment.

If your function is genuinely not a Christmas party, then please refer to following for further guidance, <http://www.unisa.edu.au/fin/tax/fbt/EntertainmentGuide.doc>. This should assist you in determining the FBT treatment of your function.

If after reviewing this guide, you are still unsure, please contact me, Kristian Thoroughgood on x21922 to discuss further.

#### ***Are Christmas parties subject to FBT?***

There are no special or separate rules in the FBT legislation<sup>1</sup> relating to Christmas functions, and the FBT legislation is very clear on how to treat tax exempt bodies such as UniSA providing entertainment.

**Basically, all employee Christmas parties will be subject to FBT regardless of where they are held (on or off premises).**

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<sup>1</sup> *Fringe Benefits Tax Assessment Act 1986* (FBTAA)

### **Calculating the taxable value**

UniSA uses an 'Actual Cost' method for entertainment, and this must be used for all entertainment expenditure.

This method provides that the taxable value of the entertainment is the total amount attributable (on each item) to the employee or associates of employees. You should include **all** entertainment costs in this calculation:

- Food;
- Alcohol;
- Venue costs;
- Other entertainment expenses (bands, entertainers, public speakers, etc); and
- Taxi fares or bus fares to or from the event.

It is not correct to split these costs and code them as other than entertainment.

#### *Example 1.*

*If the cost is \$88 (GST inclusive) per head for meals and venue hire for a party of 50 people (employees and employee associates only), the taxable value for calculating FBT is \$4,400 (GST inclusive).*

If the function is attended by visitors (not employees or associates of employees), there are no FBT consequences for UniSA of providing entertainment to these visitors.

#### *Example 2.*

*If ten of the attendees at the above function were visitors (i.e. sponsors), then the taxable value of the function for calculating FBT is only \$3,520 (GST inclusive).*

### **How much FBT is payable?**

The FBT payable is based on the 'Fringe Benefits Taxable Amount', which will be calculated as follows:

**Cost of entertainment provided to employees x 2.0647 = the Fringe Benefits Taxable Amount**

The FBT liability is then the Fringe Benefits Taxable Amount x 46.5%.

#### *Example 3.*

*Under example 1, the Fringe Benefits Taxable Amount is \$4,400 x 2.0647 = \$9,084.60. The FBT payable on the Christmas Function is \$9,084.60 x 46.5% = \$4,224.30.*

*The total cost of this function is \$8,224.30 = \$4,400 cost less \$400 GST refund plus FBT of \$4224.3.*

Roughly, FBT works out to be an additional 96% of the GST inclusive entertainment expense.

### **When is the FBT payable by my unit/division/school?**

UniSA calculates its FBT liability in the month after the cost is incurred. This means that if the Christmas party cost is incurred in December, your cost centre will be charged the FBT in January.

### **What about GST?**

The GST Act<sup>2</sup> provides that UniSA can claim back input tax credits on entertainment that is subject to FBT. As such you should make sure that you request and receive a valid tax invoice for the function costs from the party supplier.

If the function is attended by visitors, input tax credits cannot be claimed on the portion that relates to these visitors.

In brief:

- Expenditure on employees and associates – should be coded as 'T'.
- The portion of expenditure on visitors – should be coded as 'F'.

### **What if an employee contributes to the party?**

Employees frequently provide some contribution towards the cost of the party. This contribution should be paid directly to the venue/entertainment supplier, not to UniSA. This will have the effect of reducing the FBT liability, provided you receive an invoice for the net amount.

Example 4.

*Under example 1 the staff decided to contribute \$20 each. The vendor provides a tax invoice (net of the staff contribution) based on \$68 per head or \$3,400. This is the new taxable value for FBT purposes.*

There are two critical points here:

1. The staff contribution must be provided directly to the supplier; and
2. The invoice received by UniSA must be at the reduced or net amount.

There are no GST consequences for UniSA as a result of this employee contribution being made direct to the entertainment supplier.

### **What about gifts provided to employees?**

Hampers or presents given to an employee at a Christmas function are not considered to be the provision of entertainment.

If a present given to an employee is under \$300, it will not attract any FBT.

### **Completing the FS71 – Entertainment Expenditure Form**

<http://www-p.unisa.edu.au/fin/forms/FS71.doc>

It is important to complete the FS71 for your Christmas function, which advises you on where to code these expenses. We note:

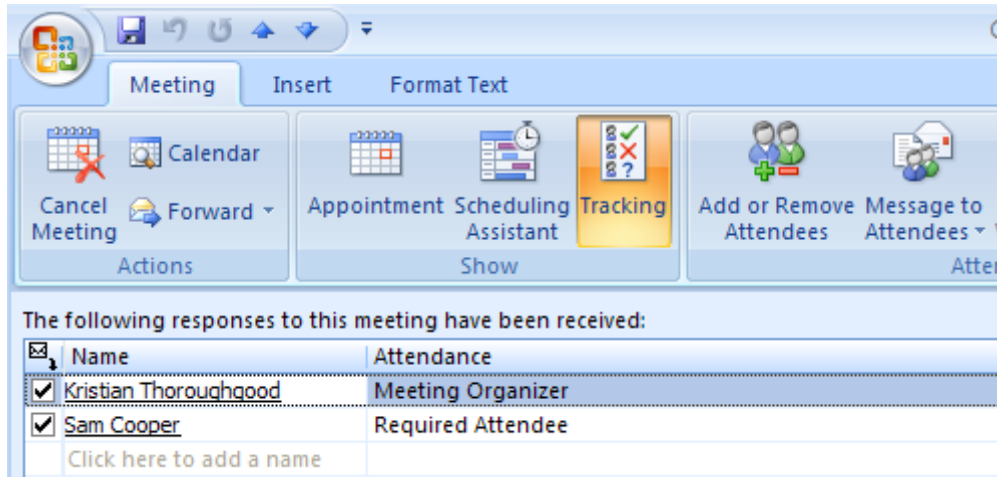
1. If the Function is on University premises, tick and use section two.
2. If the Function is off University premises, tick and use section three.

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<sup>2</sup> A New Tax System (Goods and Services Tax) Act 1999

You should also list the names of all people attending and indicate whether they are employees or associates of employees. If you already have a list of attendees that clearly indicates who is attending and their employee/non-employee status, then feel free to print or copy that list and attach this to the FS71.

For example, you may choose to print the list from an Outlook meeting request like so:



**Have a safe and merry Christmas season!**

Yours sincerely

**Kristian Thoroughgood  
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X21922**