

Practice Update



Entertainment FBT

What is the provision of entertainment?

The provision of entertainment means the provision of:

- entertainment by way of food, drink or recreation
- accommodation or travel in connection with, or to facilitate the provision of, such entertainment.

Recreation includes amusement, sport and similar leisure-time pursuits and includes recreation and amusement in vehicles, vessels or aircraft (for example, joy flights, sightseeing tours, harbour cruises).

For more on valuing these types of benefits as a tax-exempt body, refer to **Tax-exempt body entertainment fringe benefits**.

Some examples of the provision of entertainment are:

- business lunches and drinks, cocktail parties and staff social functions
- providing entertainment to employees and clients by providing access to sporting or theatrical events, sightseeing tours, holidays and so on
- accommodation and travel when it is provided in connection with, or to facilitate, activities such as entertaining clients and employees over a weekend at a tourist resort, or providing them with a holiday.

Does the provision of entertainment give rise to an entertainment fringe benefit?

There is no category of 'entertainment fringe benefit' as such.

The provision of entertainment may give rise to a number of different types of fringe benefit,

depending on the circumstances under which you provide the entertainment.

The different types of fringe benefit that may arise are:

- a meal entertainment fringe benefit (refer to section 14.7) where fringe benefits are provided by way of, or in connection with, food or drink
- an expense payment fringe benefit (refer to **Expense payment fringe benefits**) - for example, the cost of theatre tickets purchased by an employee that you reimburse
- a property fringe benefit (refer to **Property fringe benefits**) - for example, providing food and drink
- a residual fringe benefit (refer to **Residual fringe benefits**) - for example, providing accommodation or transport
- a tax-exempt body entertainment fringe benefit. This category of fringe benefit involves only those employers who are exempt from income tax (refer to **Tax-exempt body entertainment fringe benefits**).

How to identify whether the provision of food or drink is entertainment

In order to determine when food or drink provided to a person results in entertainment, you need to examine the circumstances surrounding that provision of the food or drink. You need to look at the following.

None of the factors below on their own will determine if the food or drink provided is meal entertainment. However, (a) and (b) are considered the more important factors.

(a) Why is the food or drink being provided?

This is a purpose test. For example, food or drink provided for the purposes of refreshment does

not generally have the character of entertainment, whereas 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.

(b) What food or drink is being provided?

Morning and afternoon teas and light meals are generally not considered to be entertainment. However, as light meals become more elaborate, they take on more of the characteristics of entertainment. The reason for this is that the more elaborate a meal, the more likely it is that entertainment arises from consuming the meal.

(c) When is the food or drink being provided?

Food or drink provided during work time, during overtime or while an employee is travelling is less likely to be entertainment. This is because, in the majority of these cases, food provided is for a work-related purpose rather than an entertainment purpose. This, however, depends on whether the entertainment of the person is the

expected outcome of the food or drink. For example, a staff social function held during work time still has the character of entertainment.

(d) Where is the food or drink being provided?

Food or drink provided on the employer's business premises or at the usual place of work of the employee is less likely to have the character of entertainment. However, food or drink provided in a function room, hotel, restaurant, café, coffee shop or consumed with other forms of entertainment is more likely to have the character of entertainment. This is because the provision of food or drink is less likely to have a work-related purpose.

If the benefit is:

- entertainment by way of food or drink, refer to section **14.4**
- recreational entertainment, refer to section **14.10**
- not entertainment, refer to section **14.17**

Do you provide food or drink that is entertainment?

If you provide entertainment by way of food or drink you must:

Step	Action	Section reference
1	Consider whether an exemption applies	14.5
2	If no exemption applies, the entertainment may be a property, expense payment or residual fringe benefit	14.6
3	Decide whether the benefit will be valued under the meal entertainment fringe benefit rules	14.7
4	Keep the appropriate records	14.13
5	If required, report an amount on the employee's payment summary	14.14

Examples of how the valuation rules apply are shown in section **14.9**

Does an exemption apply?

An exemption applies to the provision of food or drink in the following circumstances.

Food and drink consumed on business premises (property exemption)

This exemption does not apply to:

- employers who are exempt from income tax when entertainment arises from the provision of food and/or drink
- income tax-paying bodies who elect to value the entertainment as meal entertainment
- meals provided under a salary sacrifice arrangement after 7.30pm AEST on 13

May 2008. Existing balances on meal cards as at 7.30pm AEST May 2008 remained eligible for the property exemption provided they were used by 31 March 2009. Any increase of balances after 7.30pm AEST on 13 May 2008 are subject to fringe benefits tax (FBT)

Food and/or drink provided to, and consumed by, current employees on your business premises on a working day are exempt property benefits (refer to section **20.6** of Fringe benefits tax exempt benefits). The exemption from FBT applies regardless of whether:

- the food and drink is prepared on your premises (a corporate box is not part of your business premises)
- entertainment arises from the provision of food and/or drink.

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

Example:

An employer provided drinks and a buffet meal for 10 employees and their spouses on business premises. The cost was \$500. The cost of the entertainment provided to employees was \$250; this is exempt from FBT. The cost related to entertainment of the associates (\$250) is not exempt from FBT.

In the above example, the provision of the food and drink is the provision of meal entertainment. If the employer elects to use one of the meal entertainment fringe benefit valuation rules, they must include all of the \$500 expenditure when calculating their total meal entertainment expenditure for the FBT year.

Minor benefits exemption

Depending on the standard of entertainment provided, the benefit may qualify for the minor benefits exemption (refer to section 20.8 of Fringe benefits tax exempt benefits).

Taxable value of food or drink that is entertainment

Generally, when you provide entertainment to both employees and non-employees (for example, clients), only the part of the entertainment that relates to employees and their associates is subject to FBT.

The taxable value of the food or drink, and the associated accommodation or travel, is calculated using the respective valuation rule according to whether the benefit is an expense payment, property, residual or tax-exempt body entertainment fringe benefit.

If you can't easily determine the actual expenditure, you can use a 'per head' basis of apportionment.

You may elect to value the food, drink and associated accommodation or travel as 'meal

entertainment'. If you make this election, you can't use the per head basis of apportionment and the taxable value is calculated under the meal entertainment valuation rules, explained below.

Example:

An employee entertained two of her employer's clients by taking them to lunch at a restaurant. The meal cost \$150. The employee paid for the meal by charging it to her employer's credit card account (that is, the meal was paid for by the employer). The meal provided to the employee is a property fringe benefit. Using a per head apportionment, the taxable value of the fringe benefit is one-third of the total cost of the meal (that is, \$50).

Example:

An employee takes several of his employer's clients on a sightseeing tour of local attractions. The employer pays the total cost of the trip directly to the tour agent. Providing the trip to the employee is a residual fringe benefit, the taxable value of the fringe benefit is the cost of one ticket for the trip.

Example:

An employee entertained two of his employer's clients by taking them to lunch. The meals cost \$50 each. The employee paid a total of \$150 for the meals out of his own pocket. His employer later reimbursed him for the cost of the meals. This reimbursement gives rise to an expense payment fringe benefit. Special legislative provisions (refer to section 19.5 of Reductions in fringe benefit taxable value) ensure that FBT is paid only on the portion of the reimbursement relating to the entertainment of the employee (and associates). In this case, the taxable value of the expense payment fringe benefit is \$50.

Meal entertainment fringe benefits

Where expense payment fringe benefits, airline transport fringe benefits, property fringe benefits, residual fringe benefits or tax-exempt body entertainment fringe benefits arise from the provision of meal entertainment, you may elect to classify these fringe benefits as meal entertainment fringe benefits. If you choose to classify a fringe benefit as a meal entertainment fringe benefit, you have to classify all fringe benefits arising from the provision of meal entertainment during the FBT year as meal entertainment fringe benefits.

Specifically, the provision of meal entertainment means:

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

The provision of meal entertainment does not include the provision of entertainment by way of recreation.

If you elect to classify the provision of meal entertainment as a meal entertainment fringe benefit, the meal entertainment provided does not give rise to an expense payment fringe benefit, airline transport fringe benefit, property fringe benefit, residual fringe benefit or tax-exempt body entertainment fringe benefit.

You can't include meal entertainment provided by someone other than you (that is, someone who is not the employer) in the election.

This means that if a fringe benefit arises from meal entertainment provided by someone other than you, you must value the fringe benefit according to the rules for that type of fringe benefit. It could, for example, be an expense payment fringe benefit, an airline transport fringe benefit, a property fringe benefit, a residual fringe benefit or a tax-exempt body entertainment fringe benefit.

How to calculate the taxable value of a meal entertainment fringe benefit

There are two methods you can use to calculate the taxable value of meal entertainment fringe benefits:

1. 50-50 split method
2. 12-week register method

These options are also available to income tax-exempt employers.

Both methods are based on your total meal entertainment expenditure. This includes expenditure that might otherwise be exempt from FBT or not normally subject to FBT.

Under the 50-50 split method, the taxable value is 50% of your total meal entertainment expenditure.

The 12-week register method is based on the total meal entertainment expenditure and an appropriate percentage, as evident from the 12-week register.

If you choose to classify a fringe benefit as a meal entertainment fringe benefit, you have to classify all fringe benefits arising from the provision of meal entertainment as such. You may elect to classify benefits as meal entertainment regardless of whether or not you did so in a previous year.

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

You need to carefully consider the implications of both the 50-50 split method and the 12-week register method of calculating the taxable value of meal entertainment fringe benefits. It may be that a better option for you is to determine the taxable value based on actual expenditure.

When determining which meal entertainment valuation method is best for you, factors you could consider include:

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

There is no need to notify us of the method you choose as your business records are sufficient evidence of this.

If you don't elect to use one of these methods, you must use the respective valuation rule to calculate the taxable value according to whether the benefit is an expense payment fringe benefit, a property fringe benefit, a residual fringe benefit or a tax-exempt body entertainment fringe benefit.

Using the 50-50 split method

The total taxable value of meal entertainment fringe benefits is 50% of the expenses you incur in providing meal entertainment to all people (whether employees, clients or otherwise) during the FBT year. Your total meal entertainment expenditure includes expenditure that might otherwise be exempt from FBT or not normally subject to FBT.

The reference to expenses you incur in providing meal entertainment excludes any contribution by an employee associate.

The property benefits exemption described in section **14.5** and section **20.6** of Fringe benefits tax exempt benefits, and the minor benefits exemption described in section **20.8** of Fringe

benefits tax exempt benefits don't apply to meal entertainment fringe benefits if you use the 50-50 split method.

Using the 12-week register method

The total taxable value of meal entertainment fringe benefits is the total expenses you incur in providing meal entertainment to all people (whether employees, clients or otherwise) during the FBT year, multiplied by the 'register percentage'. Your total meal entertainment expenditure includes expenditure that might otherwise be exempt from FBT or not normally subject to FBT.

The reference to expenses you incur in providing meal entertainment excludes any contribution by an employee or associate.

Register percentage

You use the following formula to calculate the register percentage:

$$\frac{A}{B} \times 100$$

B

Where:

A = The total value of meal entertainment fringe benefits you provide to employees and their associates during the 12-week register period.

B = The total value of meal entertainment you provide to all people (whether employees, clients or otherwise) during the 12-week register period.

Valid register

You must keep the register for a continuous period of 12 weeks. The provision of meal entertainment during this period must be representative of the meal entertainment you provide during the first FBT year for which the register is valid.

Generally, a register is valid for the year in which you keep it and the four following years. However, if the period during which you keep the register begins in one FBT year and ends in the following FBT year, the register is not valid for the first year.

If the total expenses you incur in providing meal entertainment increase by more than 20% in a year, the register is not valid for any of the years following the year in which the increase occurred.

A register that is otherwise valid for an FBT year ceases to be valid if there is a later valid register for that FBT year.

A register containing an entry that is false or misleading in a material particular is not a valid register.

The person making the entries in the register must do so as soon as practicable after the details are known.

Details to be included in register

You record the following details in the register:

- the date you provided meal entertainment
- for each recipient of meal entertainment, whether they are one of your employees or an associate of an employee
- the cost of the meal entertainment
- the kind of meal entertainment provided
- where the meal entertainment was provided
- if the meal entertainment was provided on your premises, whether it was provided in an in-house dining facility.

The property benefits exemption described in section 14.5 and section 20.6 of Fringe benefits tax exempt benefits does not apply to meal entertainment fringe benefits when you use the 12-week register method. However, the minor benefits exemption described in section 20.8 of Fringe benefits tax exempt benefits can apply.

Common circumstances in which food or drink is provided

The following are some common circumstances in which food or drink is provided by a taxable entity. The FBT consequences of providing food or drink in these circumstances are explained.

The provision of alcohol generally means that entertainment has been provided. However, there is a narrow category of situations where alcohol is provided to an employee while they are on business travel overnight or where the provision of alcohol is reasonably incidental to an employee's attendance at certain business seminars.

Morning and afternoon teas and light meals

Providing morning or afternoon tea or light meals to your employees on your premises is not entertainment (and, therefore, is not meal entertainment), where you are providing refreshments to enable the employee to complete the working day in comfort. The provision of food

or drink in these circumstances is exempt from FBT under the property exemption if the food or drink is provided on your premises. If the food or drink is provided off your premises, you will need to consider the circumstances surrounding the provision of the food or drink.

Providing morning or afternoon tea or light meals to associates of your employees on your premises is not entertainment. However, the provision of food or drink in this circumstance is a property fringe benefit. You will need to look at the rules for valuing property fringe benefits in order to determine the taxable value. The property exemption does not apply where the benefit is provided to an associate.

Morning and afternoon tea includes light refreshments such as tea, coffee, fruit drinks, cakes and biscuits, but does not include alcohol.

Light meals include sandwiches and other hand food, salads and orange juice that are intended to be, and can be, consumed on your premises or worksite. As light meals become more elaborate, they take on more of the characteristics of entertainment. Normal business practice determines when light meals become entertainment.

Example: afternoon tea without alcohol

A taxable entity undertakes a research project. When the project is completed, a presentation by the participants in the project is provided to senior management. All staff involved in the research project attend the presentation. The presentation is undertaken on the business premises. An afternoon tea break is included in the presentation and afternoon tea consisting of tea, coffee, cakes and biscuits are provided. The afternoon tea provided to the employees is exempt from FBT.

Example: afternoon tea with alcohol

Assume the same facts as above apply, however alcohol is provided. As alcohol has been provided, the afternoon tea provided to employees in this situation is considered to have a social context. The afternoon tea is entertainment. This will be a property fringe benefit and the property exemption will apply, unless the employer elects to value the entertainment as meal entertainment.

If alcohol is provided at the morning or afternoon tea or light lunch, you are providing entertainment to your employees and their associates.

Christmas parties

There is no separate FBT category for Christmas parties and you may encounter many different circumstances when providing these events to your staff. Fringe benefits provided by you, an associate or under an arrangement with a third party to any current employees, past and future employees and their associates (spouses and children), may attract FBT.

Implications for a taxpaying body

If you are not a tax-exempt organisation (refer to **Tax-exempt body entertainment fringe benefits**), the following explanations may help you determine whether there are FBT implications arising from a Christmas party.

Exempt property benefits

If you don't use either the 50-50 split method or the 12-week register method for meal entertainment (refer to section **14.8**), the costs (such as food and drink) associated with Christmas parties are exempt from FBT if they are provided on a working day on your business premises and consumed by current employees (refer to section **20.6** of Fringe benefits tax exempt benefits).

A taxable fringe benefit will arise in respect of an associate of an employee who attends the party if not otherwise exempt under the minor benefits exemption (refer to section **20.8** of Fringe benefits tax exempt benefits).

Exempt benefits - minor benefits

The minor benefits rules that apply to Christmas parties are no different from those that apply to any other benefits. Where you provide a Christmas party for your employees and their partners you don't add the costs together, but instead look at the cost of the benefit provided to each person. Each benefit that is less than \$300 may be a minor benefit and exempt if certain conditions are met (refer to section **20.8** of Fringe benefits tax exempt benefits). Before 1 April 2007, the minor benefits threshold was less than \$100.

The minor benefits exemption can apply if you use the 12-week register method for valuing meal entertainment benefits.

Gifts provided to employees at a Christmas party

All benefits associated with the Christmas function should be considered separately to the Christmas party when considering the minor

benefits exemption. For example, the cost of gifts such as bottles of wine and hampers given at the function should be looked at separately to determine if the minor benefits exemption applies to these benefits.

Tax deductibility of a Christmas party

The cost of providing a Christmas party is income tax deductible only to the extent that it is subject to FBT. Therefore, any costs that are exempt from FBT (that is, exempt minor benefits and exempt property benefits) can't be claimed as an income tax deduction.

The costs of entertaining clients are not subject to FBT and are not income tax deductible.

Christmas party held on the business premises

A Christmas party provided to current employees on your business premises or worksite on a working day may be an exempt benefit. The cost of associates attending the Christmas party is not exempt.

Christmas party held off the business premises

The costs associated with Christmas parties held off your business premises (for example, a restaurant) will give rise to a taxable fringe benefit for employees and their associates unless the benefits are exempt minor benefits (refer to section 20.8 of Fringe benefits tax exempt benefits).

Food or drink provided to employees while on business travel overnight

If you provide food or drink, including some alcohol, to your employee while they are on business travel overnight, this is generally not the provision of entertainment. Food or drink provided in these circumstances is, therefore, not meal entertainment, but will be an expense payment or a property fringe benefit. The 'otherwise deductible' rule applies to reduce the taxable value of the expense payment or property fringe benefit to nil.

If excessive alcohol is provided to employees while they are on business travel overnight, the provision of the food or drink is considered entertainment. The provision of a meal to employees while they are on business travel overnight is also entertainment if they receive entertainment in conjunction with their meal, such as attending a floor show.

Example: meals provided to employees while on business travel overnight not entertainment

Two employees of an employer dine together while travelling on business overnight and are subsequently reimbursed by their employer.

The reimbursement of the meal expenses does not amount to entertainment and would be income tax deductible to the employer. Therefore, the reimbursement of the meals is not meal entertainment, but is an expense payment fringe benefit. The taxable value of the meals is reduced to nil because the meals would have been 'otherwise deductible' to the employees.

Food or drink provided to employees at work functions

Where your employees are required to attend work functions as part of their employment duties, you will need to examine the circumstances of the situation and what duties are being performed by your employee in order to determine if entertainment has been provided. The fact that an employee is required to attend a function does not by itself mean that entertainment has not been provided.

Food or drink provided to employees at continuing professional development seminars

Your expenditure on food or drink that is reasonably incidental to your employees' attendance at a continuing professional development (CPD) seminar that goes for at least four hours, is deductible and is not entertainment. The benefit is either an expense payment or property fringe benefit. Where the food or drink is provided on your premises, it is normally a property benefit and the property exemption may apply.

If the food or drink is not provided on your premises, it is either an expense payment or property fringe benefit. However, the 'otherwise deductible' rule may apply to reduce the value of the fringe benefit.

How does the 'otherwise deductible' rule apply?

If your employee would have been able to claim an income tax deduction for the cost of attending the seminar had it been incurred by the employee (and not reimbursed by you), the otherwise deductible rule applies as follows.

If the food or drink:

- does not amount to entertainment, the registration fee would have been deductible in full and FBT does not apply
- does amount to entertainment
 - the registration fee would have been deductible in full provided the food or drink is reasonably incidental to the employee attending certain business seminars that go for at least four hours, and FBT does not apply
 - if the food or drink is not reasonably incidental to the employee attending certain business 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 will apply
 - if the food or drink is reasonably incidental to the employee attending a work-related CPD seminar that is not at least four hours in duration, only that proportion of the registration fee which does not relate to the food or drink would have been deductible and FBT will apply.
- 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
- is available to all seminar 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.

What if the seminar goes for less than four hours?

Where a work-related CPD seminar goes for less than four hours, the costs of attending that seminar would be deductible to an employee if incurred by the employee. Food or drink which is included as part of that cost would be deductible provided that the food or drink does not amount to entertainment. For this purpose, light refreshments (which can include some alcohol) provided immediately prior to or following the seminar does not constitute entertainment.

Food or drink provided in these circumstances does not amount to entertainment and is not meal entertainment. It will be a property or expense payment fringe benefit. The full cost of attending the seminar would have been income tax deductible if incurred by the employee. The taxable value of the property or expense payment fringe benefit can be reduced to nil under the 'otherwise deductible' rule.

Example: food and drink provided at seminar is not entertainment

An employer pays for an employee to attend a seminar that is held from 7.00am to 9.00am and is part of a continuing professional development (CPD) program. The employer pays the organisation presenting the seminar directly. The seminar is held in a hotel and a light breakfast is provided.

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 incurred it. The taxable value of the property fringe benefit can be reduced to nil under the 'otherwise deductible' rule.

Does the type of seminar make a difference?

A seminar is any training session, including a conference, convention, lecture, meeting, speech, question and answer session or educational course.

A business meeting, where the main purpose of the meeting is to give or receive information, or discuss matters relating to the business, is not treated the same way as those described as 'certain business seminars'. Neither, for example, is a seminar, where the main purpose is to promote or advertise a business (or prospective business) or its goods or services. However, a planning day (where employees discuss general policy issues relevant to the internal management of your business) conducted on property that is occupied by a person (other than the employer) whose business includes organising seminars or making property available for conducting seminars, is treated the same way as those described as 'certain business seminars'.

What does reasonably incidental mean?

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

14.10 Recreational entertainment

Recreational entertainment includes amusement, sport and similar leisure time pursuits - for example, a game of golf, theatre or movie tickets, a joy flight or a harbour cruise.

If you provide recreational entertainment to your employees, you need to:

Step	Action	Section reference
1	Consider whether an exemption applies	14.11
2	If no exemption applies, decide how you're going to value the entertainment	14.12
3	Keep the appropriate records	14.13
4	If required, report an amount on the employee's payment summary	14.14

14.11 If the benefit provided is recreational entertainment, does an exemption apply?

Depending on the standard of entertainment provided, the minor benefits exemption may apply (refer to section 20.8 of Fringe benefits tax exempt benefits).

14.12 Taxable value of recreational entertainment

The taxable value of recreational entertainment is calculated using the respective valuation rule according to whether the benefit is an expense payment (refer to **Expense payment fringe benefits**), property (refer to **Property fringe benefits**) or residual fringe benefit (refer to **Residual fringe benefits**).

Where you provide recreational entertainment by hiring or leasing entertainment facilities, you may elect to use the 50-50 split method.

Hiring or leasing entertainment facilities

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

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

Expenses, or parts of expenses, that are not entertainment facility leasing expenses for these purposes are:

- expenses attributable to providing food or beverages

- expenses attributable to advertising that would be an allowable income tax deduction.

Generally, the transport to and from an entertainment facility will be a separate benefit that will not be part of the entertainment facility leasing expense.

However, the transport may be of the entertainment facility leasing expense where the transport is provided as part of an all-inclusive package.

Boats or planes for providing entertainment

Expenses incurred in hiring or leasing a boat or plane in their entirety for the purposes of providing entertainment will be 'entertainment facility leasing expenses'.

For example, the hiring or leasing of a houseboat or a charter flight where the whole plane is hired for entertainment purposes would meet the definition of entertainment facility leasing expenses.

When you give an employee a plane ticket for travel to a holiday destination, while this will be entertainment it is not an entertainment facility leasing expense. The purchase of an air fare is not the hiring or leasing of a plane.

However, if the plane ticket is part of an all-inclusive package that includes holiday accommodation, the taxable value of the benefit may be partly attributable to an entertainment facility leasing expense being the cost of hiring the holiday accommodation.

For example, providing an all-inclusive holiday package to an employee organised through a travel agent that includes both flights and the hire

or lease of holiday accommodation will be a single benefit whose taxable value is partly attributable to entertainment facility leasing expenses. As the benefit is partly attributable to entertainment facility leasing expenses, the whole of the package will be treated as an entertainment facility leasing expense.

Other premises or facilities for providing entertainment

The phrase 'other premises or facilities' has a wide meaning. In the same way that a corporate box is a part of larger premises or a facility (being the sporting stadium), items that satisfy this category of entertainment facility leasing expense must be either:

- an entire premises or facility
- a distinct area or separate room of larger premises or a facility.

The following are examples of 'other premises or facilities' for providing entertainment:

- a function room in a club or hotel that has been hired to the exclusion of others
- a hotel/motel room
- a room in a bed or breakfast facility
- a cabin on a cruise ship
- a cabin or on-site van at a caravan park
- the hire of a marquee
- where you hire or lease a golf course for a set time or full day to the exclusion of others for example, a corporate golf day
- where you hire one or more tennis courts to the exclusion of others for example, a corporate tennis day.

The following would not be 'other premises or facilities' for providing entertainment:

- a seat on a plane
- a seat at a sporting event
- table in the dining room of a club or hotel
- golf green fees or memberships
- caravan site fees.

50-50 split method

You may elect the total taxable value of fringe benefits arising from the use of entertainment facilities you hire or lease is 50% of all entertainment facility leasing expenses.

You must decide to use the 50-50 split method for entertainment facility leasing expenses no later than the day on which your FBT return is due to be lodged with us or, if you don't have to lodge a return by 21 May.

There is no need to notify us of the method chosen as your business records are sufficient evidence of this.

The minor benefits exemption described in section **20.8** of Fringe benefits tax exempt benefits does not apply if you elect to use the 50-50 split method for valuing entertainment facility leasing expenses.

The 50-50 split method for entertainment facility leasing expenses only applies to expenses you incur. It does not include, for example, those expenses incurred by an employee that you reimburse.

14.13 Record keeping requirements

You should record information relating to entertainment 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
- where the entertainment is provided.

For more information, refer to **Fringe benefits tax record keeping**

Reporting requirements

Entertainment provided by way of food or drink, and benefits associated with that entertainment, such as travel and accommodation (regardless of which category is used to value the benefit) are excluded benefits for reporting purposes and so they are not included in your employees' reportable fringe benefits amount on their payment summary.

Expenses associated with hiring or leasing entertainment facilities are excluded fringe benefits for reporting purposes and are, therefore, not reportable.

Other types of recreational entertainment, such as tickets to musicals, are subject to the reporting requirements.

For more information, refer to **Reportable fringe benefits**

Income tax deductibility

As a general rule, you are not allowed an income tax deduction for expenses incurred in providing

entertainment. This is the case even if the entertainment is provided specifically for business reasons, such as business lunches and entertaining clients, or in connection with the performance of employment-related duties.

There are a number of exceptions to the general non-deductibility rule. Briefly, they include the following:

- The cost of providing entertainment in the ordinary course of business where your business is providing entertainment to paying clients or customers - for example, restaurants, theatres or amusement parks.
- Certain advertising or promotional expenses relating to your business, including the cost of
 - supplying entertainment to a person as part of a contract for supplying goods or services - for example, offering a free holiday as an incentive to customers to purchase goods
 - promoting your goods or services by providing free or discounted entertainment - for example, wine tasting at a winery
 - exhibiting goods for public promotion - for example, a fashion parade.
- An entertainment allowance provided to employees where the allowance is included in their assessable income.
- The cost of food and drink you provide to employees in an 'in-house dining facility'. (This does not include food or drink you provide to employees at a party or similar function). An in-house dining facility is
 - a canteen, dining room or similar facility located on your premises
 - wholly or principally operated to provide food and drink to employees on working days, and
 - not open to the public at any time (a boardroom or meeting room with kitchen facilities is not an in-house dining facility).
- The cost of meals you provide to employees on working days in an 'eligible dining facility' - for example, restaurant, café or hotel dining room. The employees must be employees who work in, or in connection with, the eligible dining facility. Again, this does not include meals you provide at a party or similar social function.
- The cost of food and drink that is reasonably incidental to a person's attendance at an 'eligible seminar'. This is a conference, convention, lecture and so on of at least four hours duration that is not held
 - to conduct normal business discussions in relation to the particular business
 - for the purpose of advertising the goods or services of a particular business
 - for the dominant purpose of providing entertainment.
- The cost of food and drink that is reasonably incidental to a person's attendance at an 'exempt training seminar' of at least four hours duration, organised by, or on behalf of, you solely for training employees. The session must be conducted in conference facilities operated by a business unrelated to you.
- The cost of operating a recreation facility that is situated on your premises, and is mainly for use by employees on working days - for example, gym, pool or games room.
- The cost of providing an overtime meal to an employee under an industrial award or agreement, or an overtime meal allowance paid to an employee under an industrial instrument.
- Expenditure on entertainment, that does not involve entertaining another person, that would otherwise be deductible to the person benefiting from it - for example, the cost of a person's meals while travelling in the course of employment.
- The cost of gratuitous entertainment provided to members of the public who are sick, disabled, poor or otherwise disadvantaged - for example, a company sponsors a Christmas party in a children's hospital.
- Expenditure incurred in providing certain specified fringe benefits and exempt benefits. The more common of these are board meals and living away from home food benefits.
- Expenditure on entertainment that is incurred in providing fringe benefits. Note that exempt benefits are not fringe benefits.
- If you elect to classify certain fringe benefits as meal entertainment fringe benefits, a restriction on deductibility is imposed for all expenditure incurred in the provision of meal entertainment,

regardless of who the recipient is and whether the expenditure would ordinarily be deductible. The right to a deduction is

limited to that portion of the expenditure taxed as meal entertainment fringe benefits.

The cost of entertaining clients and suppliers (that is, not employees or associates of employees) remains non-deductible except for the limited range of circumstances described above where the income tax law may allow a deduction.

Entertainment table

The following table gives a simplified summary of the FBT and income tax results that generally arise 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	Employee's portion \$50 tax deductible Client's portion \$100 non-deductible	Employee's portion \$50 fringe benefit Client's portion 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	Cost per employee Non-deductible Cost per associate Tax deductible	Cost per employee Exempt benefit Cost per associate Taxable fringe benefit
Employer reimburses employee for cost of private party	Amount reimbursed is tax deductible	Taxable fringe benefit
Employer provides employee and associates with theatre tickets	Tax deductible	Taxable fringe benefit