



HETHERINGTON JOHNSTON



Entertainment expenses

Income tax and GST treatment

If you provide entertainment for your team, clients or any other business contact, some of your business entertainment expenses are tax deductible.

Fully deductible expenses

- **Meals while travelling on business** — The cost of a meal while travelling on business is fully deductible as long as there are no business contacts present.
- **Conferences** — The cost of food and drink at a conference or business course, which continues for four hours or more, is fully deductible.
- **Meal allowances** — A tax-free meal allowance paid by an employer to an employee working overtime is fully deductible.
- **Executive dining facilities** — The cost of a light meal provided to employees in an area reserved for senior management is fully deductible when the meal is provided during the course of the employees' normal duties.
- **Morning and afternoon teas** — Morning and afternoon teas are fully deductible.
- **Promotions open to the public and trade display** — Entertainment provided by a business as part of a function open to the public, or at trade displays to advertise the business, are fully deductible.

For example: The costs of providing drinks and nibbles at a trade display open to the public.
- **Off-shore entertainment** — Entertainment enjoyed outside New Zealand is fully deductible.
- **Monetary sponsorship** — The cost of sponsoring entertainment is fully deductible where the sponsorship is principally for promotion or advertising to the public.
- **Entertainment as part of your business** — Providing entertainment in the ordinary course of your business is fully deductible.

For example: the cost incurred by a restaurant in providing meals to patrons.
- **Samples** — The cost of providing samples for advertising or promotional purposes is fully deductible.
- **Charitable entertainment** — Entertainment provided to members of the public for charitable purposes is fully deductible.

For example: A business donates food to a Christmas party in a children's hospital.
- **Reviewers** — The cost of providing entertainment to a person to review your business for a paper, magazine, book or other medium, is fully deductible.

50% deductible entertainment expenses

The following types of entertainment are limited to a 50% deduction:

- The cost of corporate boxes, corporate marquees or tents
- The cost of accommodation in a holiday home or time-share apartment
- The cost of hiring a pleasure craft
- The cost of food and beverages enjoyed in any of the three locations listed above, or food and beverages enjoyed on/off the business premises for a social event.
- Food and beverages enjoyed off the business premises

For example: taking customers out to a business dinner, or taking employees out to lunch at a restaurant.

- Food and beverages enjoyed on the business premises

For example: Friday night drinks, or Christmas lunch held on the premises for employees

Goods and services tax (GST)

Where you are registered for GST, you can claim the full GST portion on entertainment expenses that are fully deductible. If the entertainment expenses are only 50% deductible, you need to make an adjustment once a year for the 50% non-deductible portion.

The GST adjustment is 15% of the non-deductible entertainment expenses, exclusive of GST (prior to 1 April 2018 the adjustment was 3/23 of the non-deductible expenses). This needs to be returned in the GST return for the period your income tax return is filed or due to be filed (whichever is the earlier).

Fringe benefit tax (FBT)

Generally, entertainment expenses that come under the 50% deductibility rules are not subject to FBT.

However, if employees (including shareholder-employees) can enjoy an entertainment benefit when they choose, or outside New Zealand

And the benefit is enjoyed outside their employment duties, this benefit will be subject to the FBT rules (and usually fully deductible).

Entertainment expenses that are not deductible

There are some entertainment expenses that are not deductible. Where the expense is not related to generating income for your business, it will not be deductible. For instance, it would not be deductible if you take your family (who don't work with you in your business) out for dinner to thank them for being patient while you worked long hours and pay for this using the business credit card.

Everyday expenses — context is important

Sometimes it can be surprisingly difficult to work out whether an expense is deductible or not. You need to look at the context. It can be particularly confusing with food and drink.

Lunch

	% DEDUCTIBLE	REASONING
A self-employed person out on a job all day (e.g. courier or gardener) buys lunch	0	This is considered to be a private expense and isn't deductible
The same person has to travel to another town for a job	100	They buy lunch which they eat on their own, in a break from the job
The same person has to travel to another town for a job	50	They buy lunch which they eat with a business contact as a guest

► **Bottom line** — don't try to claim the lunch-time pie on the go during a normal working day.

Coffee

	% DEDUCTIBLE	REASONING
A business owner buys coffee for staff working on a building site	100	While the worksite is not their usual business address, it counts as current business premises (being a temporary workplace).
A business owner buys coffee and takes it to the client's premises to drink with them (buying one for him or herself as well of course)	50	Food and drink provided away from your business premises is only 50% deductible.
A self-employed person or a shareholder employee buys coffee for morning and afternoon tea and drinks it at work	50	This is considered to be a private expense and isn't deductible.

Coffee is another example. With coffee being round \$5 a pop now, it adds up really fast. Allowing for annual leave and public holidays, one a day is still more than \$1,100 a year! But, depending on who is buying the coffee, for whom and where it's drunk, it may or may not be deductible:

Good records are important

To support your claims for business entertainment expenses, keep invoices/receipts, and note the purpose of the expense, who was present and their relationship to your business.

Our recommendation

The rules are complex.

For big ticket items, please contact us on team@hj.co.nz or by phoning [04 566 3302](tel:045663302)