

## Income tax deductibility – Entertainment expenses

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.

Whether a gift is deductible and GST credits can be claimed depends on whether the gift provided is “non-entertainment” or “entertainment”. The former includes such gifts as flowers, wine, “beauty” products, gift vouchers and hampers for example, while the latter includes items of “recreation” such as tickets to a musical, theatre, movie, or sporting event

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, caf 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