

## **Entertainment Expenses**

To help determine whether expenditure is 50% deductible or 100% deductible, look for a reasonable amount of personal benefit from the entertainment. If this exists, it is likely the expense will fall into the 50% group.

Entertainment is not deductible at all unless it is incurred for business purposes.

### **Keeping the evidence**

IRD expects you to keep a record of:-

- The date the expenses were incurred
- The names of the people entertained
- The business they represent
- The position they hold
- The reasons for the entertainment

It is extremely important, when analysing your expenditure, to ensure entertainment expenses are kept separate from other business costs. If there is any expenditure which is 100% deductible this needs to be kept separate from the 50% deductible expenditure.

A convenient way of keeping a record is to pay entertainment costs with your credit card and write the name of the person you entertained on your copy of the transaction. If you have the name of the person, you are likely to remember the business they represent, the position they hold and the reason for the entertainment. If you are doing so much entertainment this could become a problem, write up your entertainment records each time you receive your credit card statement.

### **Purpose of these notes**

We are not endeavouring to give you a comprehensive list of the 50% and the 100% items because they include a number of exceptions which are unlikely to affect you. If you happen to have an executive dining room, for example, then we recommend you refer to us or read the IRD publication IR268.

### **50% deductible costs**

#### 1. Corporate Boxes

This includes anything similar to a corporate box, whether permanent or temporary like purchasing a seat in a stadium. Tickets to a cricket match would be 50% tax deductible.

2. Holiday accommodation

3. Boats and pleasure craft

4. Food and drink

Remember the rules. If there is a significant portion of personal enjoyment the cost is likely to be 50% deductible. Therefore, food and drink incurred while travelling away on business is 100% deductible. You are not "going out to dinner". IRD is not so hard as to deny you reasonable sustenance and a full deduction for it. Interpret this to be a meal at a restaurant and a modest amount of wine. Be sure you are dining alone or your cost is back to 50% deductible.

A Christmas party for staff is going to be 50% tax deductible because of the personal enjoyment element. Similarly, if you take a customer out to lunch put this down as 50% deductible.

### **100% deductible costs**

Perhaps this title is a misnomer because the whole idea is that the food or drink are not really being consumed for your "entertainment". There is one exception. If you are out of the country then all your entertainment expenses are fully tax deductible. You can take as many overseas customers to restaurants as you like and claim 100% deduction.

Listed amongst the 100% claims are:-

- Food and drink while away travelling on business providing it does not have the personal enjoyment elements, of course.
- If you go to a conference, the cost of food and drink is 100% deductible provided the course lasts for more than 4 hours and that excludes the time for the meal break. So, if a meal is involved, find out if the course goes for at least 4 hours. If it is of a shorter duration, you will need to know how much the meal cost and claim only 50% of that cost.
- Meal allowances
- Morning and afternoon teas.

We believe the above will meet the requirements for most of our clients. There are a number of other types of expenditure which are 100% deductible but each of them is relatively uncommon.

### **GST**

The GST content of the non deductible portion of the entertainment cost cannot be claimed. It is usual to make the adjustment once a year after annual accounts have been completed and pay the GST in the GST period immediately following completion of annual accounts.

### **FBT**

Any gift to an employee worth \$75 or more in any quarter is subject to FBT.

If an employee is provided with tickets to a restaurant and

- is free to choose when they want to enjoy the benefit

- It is not part of their normal employment then FBT applies instead of the entertainment rules.

If you provide a staff member with dinner for two at a restaurant at a total cost of \$75 or more the cost is 100% tax deductible but you must pay FBT.

If the voucher for dinner is less than \$75 claim 100% of the cost and do not pay FBT, unless total fringe benefits for all staff amount to \$450 or more for that quarter. There is another condition. That staff member cannot be in receipt of any other fringe benefit during the quarter. A quarter is 1 January to 31 March etc in every year.

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