



Monthly Information Newsletter – Tax & Super

December 2022

Xmas gifts from employers

Christmas is traditionally a time of giving, including employers showing gratitude to their workers for a job well done throughout the year. However, depending on the nature and value of the gift, and also who it is gifted to, such magnanimity can attract unwanted tax consequences. So how as an employer do you gift most tax-effectively this festive season?

Gifts to employees and their associates (e.g. spouses)

The first step is determining whether the gift constitutes entertainment. Gifts that constitute entertainment include tickets to movies, plays, sporting events, theatre, restaurant meals, holiday airline tickets, and admission tickets to an amusement park. On the other hand, the following gifts are not entertainment: Christmas hampers, bottles of alcohol, gift vouchers, perfume, flowers, and pen sets.

Where an entertainment gift costs less than \$300 (GST-inclusive) and is provided infrequently throughout the year, there will generally be no Fringe Benefits Tax (FBT), no deduction will be allowed, and no GST credits can be claimed. Where the cost is \$300 or more, FBT will apply, and a deduction and GST credits can be claimed.

Where a non-entertainment gift is in play, and it costs under \$300, no FBT will apply, but a deduction and GST credits can be claimed. Where the cost is \$300 or more, FBT will apply, and a deduction and GST credits can be claimed.

All told therefore, the best result for an employer (at least from a tax standpoint) is to provide a non-entertainment gift under \$300.

Gifts provided to third parties (e.g. clients, suppliers, contractors etc.)

Where gifts are provided to these recipients, the \$300 threshold has no relevance.

Gifts that constitute entertainment (irrespective of cost) do not attract FBT, cannot be deducted, and no GST can be claimed.

By contrast, non-entertainment gifts do not attract FBT, however a deduction and GST credits can be claimed – again, irrespective of cost.

Cash bonuses

Alternatively, instead of gifts, employers may wish to provide cash bonuses to their staff. From a tax perspective, the attraction of doing so is that it shifts the tax burden away from the employer and onto the employee. That is, the cash counts as assessable income for the employee while the employer can claim a deduction. No FBT is payable by the employer on a cash bonus.

Leave bonus

Another benefit that may be considered by employers is a leave bonus. For example, allowing workers to finish up for the year a couple of working days before Christmas and not have that count against their annual leave balance, noting that this may be a quiet time of the year for business anyway. There are no adverse tax consequences for either party. The added benefit for the employer is that, unlike a cash bonus, there is no immediate cashflow impact.

If you need assistance with the tax treatment of your Christmas giving, including Christmas parties, don't hesitate to reach out to us.

DISCLAIMER

All information provided in this article is of a general nature only and is not personal financial or investment advice. Also, changes in legislation may occur frequently. We recommend that our formal advice be obtained before acting on the basis of this information.

Our liability may be limited by a scheme approved under Professional Standards Legislation.