

What constitutes 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 such entertainment

For FBT purposes, the taxable value of entertainment will be determined by the type of entertainment benefit. Meal entertainment is the most common type of entertainment benefit and the taxable value can be calculated on an actual basis, or by making one of the following two elections, as follows:

- **50/50 split method** – half the cost of all meal entertainment (client, employee and other) is deductible and subject to FBT. The remaining half is treated as non-deductible and FBT-free
- **12-week register method** – similar to completion of a log book, a register is maintained over a 12 week period to determine the percentage of meal entertainment fringe benefits as compared with total meal entertainment expense during that period. This percentage is then applied against the annual meal entertainment expense to determine the taxable value

Example

Company A incurs \$50,000 in meal entertainment across an FBT year, including meal entertainment provided to both clients and employees. Company A is registered for GST. Rather than itemise each entertainment expense, Company A opts to calculate its FBT liability under one of the two arbitrary methods available, as follows:

50/50 split method:

| | |
|--------------------------------------|--|
| Taxable Value (deemed employee use): | $\$50,000 \times 50\% = \$25,000$ |
| Taxable Amount (gross-up): | $\$25,000 \times 2.0647 = \$51,618$ |
| FBT: | $\$51,618 \times 46.5\% = \$24,002.37$ |

Company A maintains a 12-week register which determines that the percentage of meal entertainment attributable to employees was 30%. Therefore the FBT liability would be calculated as follows:

12-week register method:

| | |
|--------------------------------------|--|
| Taxable Value (deemed employee use): | $\$50,000 \times 30\% = \$15,000$ |
| Taxable Amount (gross-up): | $\$15,000 \times 2.0647 = \$30,971$ |
| FBT: | $\$30,971 \times 46.5\% = \$14,401.52$ |

What Next?

If you are in business and your incur entertainment expenses, contact your manager or partner at Isaacs & Cole to discuss how FBT potentially impacts your business.

Disclaimer: The information contained in this fact sheet is not intended as specific advice. Please contact Isaacs & Cole to discuss your individual situation.