

# Entertainment expenses - income tax and GST treatment

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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

### 1. 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.

### 2. Conferences

The cost of food and drink at a conference or business course, which continues for four hours or more, is fully deductible.

### 3. Meal allowances

A tax-free meal allowance paid by an employer to an employee working overtime is fully deductible.

### 4. 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.

### 5. Morning and afternoon teas

Morning and afternoon teas provided onsite (and not provided in an area reserved for senior staff or provided at a party or social function) are fully deductible.

### 6. 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.

### 7. Off-shore entertainment

Entertainment enjoyed outside New Zealand is fully deductible, however see notes on FBT below.

### 8. Monetary sponsorship

The cost of sponsoring entertainment is fully deductible where the sponsorship is principally for promotion or advertising to the public.

### 9. 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.

### 10. Samples

The cost of providing samples for advertising or promotional purposes is fully deductible.

### 11. 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.

### 12. Reviewers

The cost of providing entertainment to a person to review your business for a paper, magazine, book or other medium, is fully deductible.

For example: the cost of a dinner provided by a restaurant giving a meal to a reviewer for publication in a magazine.

## **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 a social event  
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. 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).

An example of this is an overseas Christmas party – even though it will not be subject to the entertainment expenses limitation, the cost of the overseas Christmas party (fares/accommodation and party for employees) will be subject to FBT as it is outside New Zealand.

Expenses incurred on entertainment provided to employees in recognition of their work, such as a restaurant gift voucher, will be 100% deductible but will be subject to FBT.

## **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. Another example would be the cost of a few drinks you may have on a Friday night to wind down after a long week of work.

## **Good records are important**

Sometimes it can be surprisingly difficult to work out whether an expense is deductible or not. 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. The rules are complex. For big ticket items, ask for our advice.