



Inland Revenue
Te Tari Taake

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Entertainment expenses

A guide to the tax treatment of business
entertainment expenses

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Introduction

This guide is designed to help you understand the rules for claiming business entertainment expenses. These rules limit the deduction of certain types of entertainment expenses for income tax and GST (goods and services tax).

If you have any more questions after reading this guide, please call us on one of these numbers:

General enquiries	0800 377 774
GST	0800 377 776
Employers	0800 377 772
Large enterprises	0800 443 773

www.ird.govt.nz

Go to our website for information, services and tools.

- **Secure online services** – login to check your account information, file an employer schedule, confirm personal tax summaries and update your family details and income.
- **Get it done online** – complete and send us forms and returns, make payments, make an appointment to see us and give us feedback.
- **Work it out** – use our calculators, worksheets and tools to help you manage your tax business like checking your tax code, or your filing and payment dates.
- **Forms and guides** – download our guides, and print forms to post to us.

You can also check out our newsletters and bulletins, and have your say on items for public consultation.

How to get our forms and guides

You can view copies of all our forms and guides mentioned in this guide by going to www.ird.govt.nz and selecting “Forms and guides”. You can also request copies by calling 0800 257 773.

The information in this guide is based on current tax laws at the time of printing.

Part 1 – General information

What are entertainment expenses?

- Expenses must be incurred for business purposes before they can be deducted from income.
- Under the entertainment expenses rules, “business” is any recurrent income-earning activity.
- Entertainment expenses can be divided into “business” (deductible) and “private” (non-deductible).

For GST-registered persons, the claim for income tax purposes is worked out on the GST-exclusive amount.

Certain specified types of entertainment expenses are only 50% deductible. All other business-related entertainment expenses are fully deductible, unless the expense is principally for entertainment.

Examples of entertainment expenses that are either fully or 50% deductible (business expenses) are where:

- the expenses are incurred mainly in connection with specific business transactions
- the entertainment is for an existing or prospective client or supplier
- circumstances make it necessary to discuss business along with entertainment, such as a business lunch where the main purpose is business
- employees are entertained to maintain staff goodwill at events such as parties and retirement functions.

Please see Part 2 for more details.

Private entertainment expenditure is **not** deductible, eg, restaurant lunches with friends, or where the business or professional aspect is incidental.

Keeping records

You need to keep records, such as invoices or receipts, to support claims for all your expenses.

For entertainment expenses, you must also keep records of:

- the date the expenses were incurred
- name/s of the person/s entertained
- the business they represent
- the position/s they hold
- the reason/s for the entertainment.

You may find it helpful to review your accounting systems so they provide:

- a record of how much you spend on running and maintaining certain business entertainment venues and on providing meals at these venues
- a breakdown of all costs associated with conferences, seminars and courses
- the entertainment portion of non-taxable allowances
- all meal allowances paid.

Keeping these detailed records will help you work out the deductions you can claim for entertainment expenses. You'll also be able to easily answer any enquiries we may make.

Part 2 – Deductible expenses

Expenses that are 50% deductible

Under the entertainment expenses rules, the term “business premises” also includes temporary workplaces, eg, a building site.

There are four types of expenses that are 50% deductible:

- Corporate boxes, corporate marquees or tents, and similar exclusive areas (whether permanent or temporary) at sporting, cultural or other recreational activities that take place away from your business premises. This includes tickets or other rights of entry.
- Accommodation in a holiday home, time-share apartment or similar, but not accommodation incidental to business activities or employment duties.
- Pleasure-craft, eg, a corporate yacht
- Food and drink provided or consumed:
 - incidentally at any of the three types of entertainment above, eg, alcohol and food provided in a corporate box
 - away from the taxpayer’s business premises, eg, a business lunch at a restaurant
 - on the taxpayer’s business premises at a party, reception, celebration meal, or other similar social function, eg, a Christmas party for all staff, held on the business premises (excluding everyday meals provided at a staff cafeteria)
 - at any event or function, on or away from your business premises for the purpose of staff morale or goodwill, eg, Friday night “shout” at the pub
 - in an area of the business premises reserved for use at the time by senior staff and not open to other staff, eg, an executive dining room used to entertain clients.

Note

You also have to make GST adjustments for business entertainment expenses you’ve incurred that are only 50% deductible. Don’t include any non-taxable allowances. If you provide benefits that employees can enjoy at a time and place of their choice, they aren’t subject to GST adjustments, but you will have to pay FBT on the value of the benefit. See page 14.

Fully deductible expenses (any exceptions are noted in each paragraph)

This section lists the fully deductible entertainment expenses. The expenses must have been incurred in carrying on a business to gain gross income.

A “business contact” includes clients, suppliers, shareholders and financiers of a taxpayer, or of an associated person or entity. It doesn’t include taxpayers who are partners in a partnership.

1. Meals while travelling on business

The cost of meals while travelling on business is fully deductible. However, there are some exceptions, eg, the cost of meals you provide to a business contact and meals at a party or other social function during travel, are only 50% deductible. The cost of meals for the staff member entertaining the business contact is also 50% deductible.

2. Food and drink at conferences/staff training or business course

To qualify for full deduction of the cost of food and drink, the conference or course must continue for four hours or more, not counting meal breaks—morning and afternoon teas are not considered to be meal breaks. The conference must not be held for the principal purpose of entertainment.

3. Meal allowances

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

4. Executive dining room

This is an area reserved for the use at that time only by those at a certain level of seniority, and not open to all the employees working on the premises.

The cost of a light meal provided to employees in an area reserved for senior staff is fully deductible when the meal is provided during the course of the employees’ duties. For example, sandwiches provided at a lunchtime meeting of supervisors.

5. Morning and afternoon teas

Morning and afternoon teas provided for employees at a conference or on the business premises, other than in an executive dining area or at a conference, are normal business expenses. The full cost of these can be claimed as a normal business deduction, unless the event is being held for the principal purpose of entertainment.

6. Promotions open to the public and trade displays

Entertainment that a business provides as an incidental part of a function open to the public, or a trade display to advertise the business, is fully deductible.

7. Off-shore entertainment

Entertainment consumed or enjoyed outside New Zealand is fully deductible. However, business entertainment provided on pleasure-craft in New Zealand waters is generally considered to be in New Zealand and is 50% deductible.

8. Monetary sponsorship

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

When the sponsor, their clients, or associated persons receive benefits in return for the sponsorship, you deduct 50% of the value of the benefit from the total value of the sponsorship.

The cost of sponsorship is also only 50% deductible if the entertainment is more readily available to employees and business contacts than to members of the public.

Example

A restaurant pays for a soccer team's uniforms which have the restaurant's name on them. The cost of providing the uniforms is fully deductible. However, if the restaurant provides meals for the team at the grounds, immediately after the game, the cost will be 50% deductible because they are being provided away from the taxpayer's business premises.

9. General entertainment provided

When a business provides entertainment that's part of their regular business activities, the expense is fully deductible so long as it's available at that price to the general public.

If the entertainment is provided at a price that is less than what the public would pay, it's 50% deductible.

Example

A restaurant provides meals to all its customers at half price on Tuesday nights, so the expenses are fully deductible. However, if the restaurant provides food and drinks to staff at a social function in the restaurant the cost is 50% deductible.

10. Samples

The cost of providing samples for advertising or promotion purposes to persons who are not employees or associated persons is fully deductible.

11. Charitable entertainment

Entertainment provided to members of the public for charitable purposes is fully deductible. Charities are generally not liable for income tax.

Example

If a business donates food to a Christmas party in a children's hospital, the cost is fully deductible.

12. Reviewers

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

The entertainment must be a reasonable amount, eg, the cost of a meal and the review must not be for sale.

Example

A meal provided for a journalist who will review it in their column.

13. Taxable income

If a person receives a taxable entertainment benefit allowance, the person who pays this can claim a deduction for the full cost.

Example

An employee's salary package includes a taxable allowance for entertaining clients. This is still fully deductible to the employer.

14. Entertainment liable for FBT

Entertainment that is liable for FBT is fully deductible. See page 14.

15. Licensed premises operators

Expenditure incurred by a licensed premises operator in providing a special offer of one of the following, is fully deductible:

- happy hour at reduced prices during a particular time period
- two-for-one price meals
- free drinks.

Part 3 – Working out the expenses

In most cases, the value (for tax purposes) of the entertainment expense is simply the cost of providing the entertainment. Some examples are:

- the costs in providing a corporate box at a sports event
- buying drinks for staff at a monthly get-together
- the cost of food and drink at a business lunch.

Sometimes the value of the expenses is not so clear cut, or you may have to take other factors into account. The following are some examples you might come across.

Entertainment venues

The value of business entertainment at an entertainment venue includes depreciation and other general costs in maintaining and running a corporate box, holiday home or yacht.

Incidental expenses

Entertainment expenses also include incidental expenditure or loss. This may be the cost of employing waiting staff, hiring crockery, glassware or utensils, music expenses or other costs associated with the entertainment. This means that 50% of these costs will also be deductible.

If you're registered for GST, calculate the entertainment value on the GST-exclusive cost. You can claim the GST on your expenses—for details see our *GST guide* (IR 375).

Monetary sponsorship

Although monetary sponsorship is fully deductible, any entertainment received as a result of that sponsorship must be taken into account.

Example

Kiz Ltd provides \$5,000 worth of sponsorship to a local netball team. In return they receive two tickets to the team's corporate box, valued at \$590 (excluding GST). Kiz Ltd deducts 50% of the value of the tickets (\$295) from the total value of the sponsorship, leaving \$4,705, which is fully deductible.

Allowances

If you pay an employee a tax-free allowance to cover expenses that are 50% deductible, only 50% of the allowance is deductible.

For allowances that cover both entertainment and other expenses, you'll need to make an apportionment between them, based on expenses you reasonably expect the employee to incur. You must keep records to show how you made the apportionment.

Employee contributions

When employees make a contribution to the entertainment they've received, this reduces the value of the entertainment. The contribution is deducted from the cost before calculating the amount that can be claimed.

Example

On 1 October 2010 an employee receives a subsidised lunch from an employer. The cost of the meal is \$42 and the employee makes a contribution of \$10.

Cost (GST-inclusive)	\$ 42.00
Less contribution by employee	<u>\$ 10.00</u>
Cost to employer	\$ 32.00
Less GST	<u>\$ 4.17</u>
GST-exclusive amount contributed by employer	\$ 27.83
Less 50% non-deductible	<u>\$ 13.91</u>
Amount deductible for income tax	\$ 13.91

If we disagree with your valuation

We can reapportion the value of any entertainment expenses after considering their market value. We'll do this if the entertainment expenditure has not been reasonably and fairly calculated.

Part 4 – FBT and GST

FBT (fringe benefit tax)

Any type of entertainment expense liable for FBT is fully deductible for income tax. The FBT paid on those benefits is also deductible for income tax. This overrides any distinction between business and private expenses, as well as the 50% deductibility rules.

Any entertainment benefit that employees consume or enjoy at their discretion, and outside their employment duties, is subject to FBT. For example, a company gives their employees restaurant vouchers as part of an incentive scheme. The cost of the vouchers is liable for FBT.

Any entertainment consumed or enjoyed outside New Zealand and not in the course of normal duties is subject to FBT.

Entertainment not liable for FBT can come under the 50% deductibility rules if employees can only enjoy it at a set time. Some examples are:

- staff Christmas parties
- subsidised drinks for staff at work.

Entertainment benefits fall into the “other benefits” category for FBT. This means there is an exemption of \$300 per quarter per employee. The maximum exemption an employer can claim is \$22,500 for the last four quarters (including the current one). If the value of the benefits goes over the maximum exemption, you pay FBT on the total value, not just the excess.

The specified types of entertainment for income tax purposes (see “Expenses that are 50% deductible” on page 7) are treated as fringe benefits only if:

- the employee can choose when to enjoy the benefit, or
- they are enjoyed or consumed outside New Zealand, and
- they aren’t consumed or enjoyed in the course of, or as a necessary consequence of, employment.

GST (goods and services tax)

You claim the full amount of entertainment expenses (excluding any non-taxable allowances) you have incurred through the year. Once a year you make an adjustment on your GST return to pay GST on the 50% non-deductible expenses you have claimed previously. This is because these expenses are considered to be supplies under the GST rules. In most cases the adjustment will be a very small one. The “time of supply” for this adjustment is the earlier of:

- the date your income tax return is due to be filed, or
- the date you file your income tax return.

Example

Paula’s 2010 income tax return is due on 7 July 2010, but her tax agent has an extension of time until 31 March 2011 to file the return. As Paula’s GST period also ends on 31 March, she’ll make her adjustment for entertainment expenses in her GST return for 31 March 2011. This is due for filing on 7 May 2011.

The GST adjustment is $\frac{3}{23}$ of the non-deductible entertainment expenses exclusive of GST (except non-taxable allowances).

Include the adjustment on the *GST adjustments calculation sheet (IR 372)* under “Entertainment expenses”, and in the adjustments total in Box 9 of your GST return. Please note you can't claim this GST adjustment amount as a deduction for income tax purposes.

Example

The only entertainment expense Jason incurred in the 2011 financial year was a business lunch costing \$225 (GST-inclusive). He files his income tax return for the year ending 31 March 2011 on 7 July 2011. His business files six-monthly GST returns for the periods ended March and September. Jason makes his adjustment for entertainment expenses in the GST return for the six months ending 30 September 2011. He included the whole \$225 in an earlier GST return.

Amount of expense (including GST)	\$ 225.00
Subtract GST portion of $\frac{3}{23}$	<u>\$ 29.34</u>
GST-exclusive amount	\$ 195.66
Value of expense not deductible (50%)	<u>\$ 97.83</u>
Multiply by 3, and divide by 23	\$ 12.76

Jason will put this adjustment (\$12.76) on his GST return for the period ending 30 September 2011.

Because the GST adjustment is based on the amount not deductible for income tax, organisations not liable for income tax do not need to make this adjustment. You'll find more information in our *GST guide (IR 375)*.

Note

If an employee makes a contribution towards an expense, this is treated as a separate supply for GST purposes. Include the total expense amount in Box 11 as normal and show the employee contribution in Box 5.

Part 5 – Services you may need

Need to talk to us?

You can call us on these numbers:

General tax, tax credits and refunds	0800 227 774
Employer enquiries	0800 377 772
General business tax	0800 377 774
Overdue returns and payments	0800 377 771

We're here to take your call between 8 am and 8 pm Monday to Friday and Saturday between 9 am and 1 pm. If you have an IRD number, remember to have it with you when you call.

For more information go to www.ird.govt.nz (keywords: contact us).

0800 self-service numbers

This service is available seven days a week (any time, except between 5 am and 6 am) for a range of self-service options. Remember to have your IRD number with you when you call.

For personal information, such as account balances, you'll also need a personal identification number (PIN). You can get a PIN by calling 0800 257 777 and following the step-by-step instructions.

Order publications and taxpicks	0800 257 773
Request a summary of earnings	0800 257 778
Request a personal tax summary	0800 257 444
Confirm a personal tax summary	0800 257 771
All other services	0800 257 777

Customer service quality monitoring

As part of our commitment to providing you with a quality service, we record all phone calls to and from our contact centres. Find out more about this policy or how to access your recorded information at www.ird.govt.nz (keywords: call recording).

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your liabilities or your entitlements under the Acts we administer. We may charge penalties if you don't.

We may also exchange information about you with:

- some government agencies
- another country, if we have an information supply agreement with them
- Statistics New Zealand (for statistical purposes only).

If you ask to see the personal information we hold about you, we'll show you and correct any errors, unless we have a lawful reason not to. Call us on 0800 377 774 for more information. For full details of our privacy policy go to www.ird.govt.nz (keyword: privacy).

If you have a complaint about our service

We're committed to providing you with a quality service. If there's a problem, we'd like to know about it and have the chance to fix it. You can call the staff member you've been dealing with, or call us on 0800 221 221. If you're not satisfied, ask to speak with their team leader/manager. If your complaint is still unresolved you can contact our Complaints Management Service. For more information go to www.ird.govt.nz (keyword: complaint) or call us on 0800 274 138 between 8 am and 5 pm weekdays.