

January 2018

Let the 2018 Entertainment FBT challenge begin...

With the 2018 FBT year-end nearing, now is a good time to give some thought to managing the FBT reporting for Entertainment and working out your game plan!

Why?

1. It's not just about FBT, there are interactions with Income Tax and GST that require consideration and ultimately reconciliation;
2. The need to separate the sustenance (deductible) from the entertainment;
3. There are 3 different types of defined Entertainment that require separate analysis, FBT valuation and FBT reporting;
4. For meal entertainment and entertainment facility leasing expenses, there is a valuation choice between 50/50 and actual method (subject to adequate records being maintained);
5. When valuing meal entertainment using the actual method; consideration can be given to claiming the FBT exemptions for on-premises entertainment and minor benefits exemption; and
6. For recreational entertainment, the 50/50 valuation method is not available. However, consideration can be given to claiming the minor benefits exemption.

Where to start?

A review of general ledger transactions should be undertaken based on a trial balance review. The following general ledger codes should be reviewed:

- entertainment expenses (deductible or non-deductible)
- staff functions
- food expenses (for example, sustenance, morning teas, food and beverage)
- staff awards
- travel expenses
- any codes with 'FBT' or 'no FBT' in the title
- staff amenities
- other administrative expenses
- miscellaneous expenses
- marketing & sales expenses
- conference expenses
- sponsorships
- promotional expenses

Some of the specific challenges:

1. Sustenance versus Meal Entertainment

Try to understand how your organisation has distinguished between sustenance and meal entertainment on a day to day basis, from both a policy, accounting and tax perspective. Sample testing of transactions is a good way to see if you can rely on the general ledger postings and coding rules. Importantly, in undertaking the sample testing, it is necessary to analyse how the coding/posting takes in to account:

- attendee types and separation or apportionment of costs;
- whether any \$ thresholds have been applied;
- on-premises versus off-premises costs; and

- distinguishes between expenditure that is travel versus non-travel related (which is often impacted by the attendee types)

2. Staff functions and parties

Some tips when reviewing expenses for staff functions and parties:

- understand the substance of the event and the attendees (who attended - just employees or did spouses/clients also attend?);
- it will be necessary to analyse the costs and where applicable, split the costs between meal entertainment, entertainment facility expenses and recreational entertainment;
- if using the actual method, can you confirm if the minor benefits exemption (less than \$300 including GST per head cost) applies?;
- don't forget deposits or security bonds that may have been paid earlier – these will impact all of the above; and
- were there other related costs such as – accommodation, meals, taxis, flights, parking, gifts, etc.

3. Travel meals

Always a tricky area to review. Here are some tips when reviewing travel meals:

- Never assume the meal costs are automatically deductible and do not constitute sustenance;
- Understand the attendees and their role / relationship to your company. For example, when a non-travelling employee or client dines with a travelling employee, then there will be FBT and deductibility issues to consider;
- Don't assume that the consumption of alcohol with a meal automatically categorises the expense as entertainment;
- Understand what information has been provided with the employee's expense claim to help determine the tax implications; and
- Bar tabs (drinks at the bar) would generally always constitute meal entertainment

Next Month on FBT Talk

In our next FBT Talk, we will be discussing all things FBT & Motor Vehicles:

1. Cars & FBT
2. Logbooks – what is a compliant Logbook?
3. Why it is important to re-assess the Logbook business use % every FBT year
4. Claiming the FBT exemptions for motor vehicles – what are the ATO expectations?

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If you wish to discuss anything further in relation to FBT, please reach out to our office on 02 8079 2924 or contact Paul directly at paul.mather@fbtnsolutions.com.au.