

Income tax – Entertainment tax

As entertainment expenditure can give significant private benefits, there are specific limitations on deductions for this when making a claim for tax purposes. These limitations restrict deductibility to 50% on a wide range of entertainment expenditure.

What does it apply to?

The regime applies to expenditure on:

- Corporate boxes – corporate boxes, marquees, or tents, and similar exclusive areas at sporting, cultural, or other recreational events or activities occurring off the business premises of the taxpayer. (This includes expenditure on tickets or other rights of entry to such boxes or other areas.)
- Holiday accommodation – accommodation in a holiday home, time-share apartment, or similar leisure venue (not including accommodation which is merely incidental to business activities or employment duties).
- Pleasure craft - yachts or other pleasure craft.
- Food or beverages food or beverages provided or consumed:
 - as an incidence of the type of entertainment listed under the other three headings;
 - off the business premises; and
 - on the business premises at a party or in a boardroom, executive dining area, or other similar exclusive area.

The regime also applies to the extent that allowances, reimbursements, or expenses are paid to employees for employees' expenditure on a specified type of entertainment and the allowance or reimbursement is exempt from tax.

Specified types of entertainment provided to employees will, in certain circumstances, be subject to fringe benefit tax, rather than the 50% non-deductibility rule.

Entertainment that is excluded

Some expenditure will not be subject to the 50% non-deductibility rule. This expenditure will be fully deductible providing it satisfies the deductibility criteria.

Food or beverages

- Food or beverages consumed while travelling in the course of business activities or employment duties, unless:
 - the travel is principally for the purposes of enjoying entertainment;
 - consumed at a meal or other function at which an existing or potential business contact is a guest; or
 - consumed at a party, reception, celebration meal, or other similar social function.
- Food or beverages consumed at a conference lasting at least 4 hours, unless the event is principally for the purpose of entertainment.
- A reasonable amount of food or beverages consumed by an employee to the extent that the employer pays an allowance or reimbursement for overtime for the cost of food or beverages, and the allowance or reimbursement is exempt from tax.
- A reasonable amount of food or beverages provided as morning or afternoon tea in a boardroom, executive dining room, or other similar exclusive area, or provided at a conference unless the event is principally for the purposes of entertainment.
- A light meal provided by an employer to employees in a boardroom, executive dining room, or other similar exclusive area where the meal is enjoyed as part of the employees' business or employment duties.

Advertising or promotional activity for general public

- Entertainment to the extent to which it is sponsored principally to advertise or promote a business or goods or services to the public, provided existing business contacts, employees, or associates are not given any preference.
- Entertainment that is merely an incidental part of a function open to the public or a trade display principally held to advertise or promote a business or goods or services.

Entertainment consumed outside New Zealand

- Entertainment enjoyed or consumed outside New Zealand.

Entertainment provided at market value

- Entertainment provided for market value in the ordinary course of business.

Samples

- Entertainment that is a sample provided for advertising or promotion purposes to someone other than an employee or associate.

Charity

- Entertainment provided to members of the public for charitable purposes.

Reviewer

- Entertainment that is provided to a person who is reviewing it for a paper, magazine, book, or other medium.

Entertainment which is taxable to recipient

- Entertainment that is gross income of the person who enjoys or consumes it.

Fringe benefit tax or entertainment tax?

Entertainment that is a fringe benefit to which fringe benefit tax applies is also excluded from the entertainment tax regime. Entertainment provided to employees or their associates that would be subject to the 50% non-deductibility rule will instead constitute a fringe benefit subject to FBT where:

- Either the employee may consume or enjoy the benefit at the employee's discretion or the entertainment is consumed or enjoyed outside New Zealand; and
- The benefit is not consumed or enjoyed in the normal course of employment duties.

The adjustment is made annually in the GST return for the period in which the due date for filing the annual income tax return of the business falls.

The amount of this GST adjustment is not deductible for income tax purposes.

Common entertainment expense items

The following table provides guidance on the treatment of certain entertainment expenditure.

Activity	Deductible		Subject to FBT
	50%	100%	
Taking client (existing or potential) out to lunch or dinner	Yes	No	No
Meals with clients while you are out of town on business	Yes	No	No
Overseas business travel including meals with clients	No	Yes	No
Golf club subscription for a shareholder employee paid by the company	No	No	Yes FBT
Gym membership for a staff member paid by the employer	No	No	Yes FBT
Dinner for a salesperson while out of town on business (no client present)	No	Yes	No
Hire of a launch to entertain clients	Yes	No	No
Parties and other social functions (whether at the office or elsewhere), eg Friday night drinks, staff Christmas parties, reception for existing or potential customers	Yes	No	No
Conferences, educational courses, trade displays	No	Yes	No
Morning and afternoon teas and light meals provided during working hours	No	Yes	No
Non-taxable meal allowances paid to employees working overtime	No	Yes	No
Samples of food and beverages for advertising purposes	No	Yes	No

See Us First

- To assist you in meeting the necessary legal or tax requirements.
- If you consider that any of the issues contained in this fact sheet may affect you.

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