

## A-Z Guide

# Entertainment Expenses



## Overview

- Entertainment of employees and business contacts can be deducted as an expense for income tax purposes.
- Entertainment expenditure that is for business purposes can be either fully deductible or partially deductible.
- Entertainment expenditure that attracts FBT (Fringe Benefit Tax) liability is fully deductible, as is the FBT itself.
- Thorough record keeping is required by employers who claim to have entertainment expenditure for tax purposes.

## Introduction

Entertainment expenditure that is for business purposes is deductible, but entertainment expenditure that is for private purposes is not. The meaning of “business” is any recurrent income-earning activity. A business “premise” includes temporary workplaces where work is being done for a time.



When two colleagues go to lunch at a restaurant, and that they are colleagues in business is not incidental to them lunching together, it is private entertainment expenditure which is non-deductible. When two colleagues go to lunch together at a restaurant and the purpose of the lunch is to meet with a business contact to discuss business matters (albeit in an informal setting) then the entertainment expenditure is incidental to business purposes and is deductible.

Deductible entertainment expenditure may be fully deductible or partially (50%) deductible.

Some expenditure on entertainment by employers for the benefit of their employees is deductible against income as an expense for income tax purposes. If entertainment expenditure is liable for FBT then it is fully deductible, because it is a cost of employing. Furthermore, the FBT is itself deductible against income tax. Hence it is important to understand when entertainment expenditure is a fringe benefit for employees and when it is not, because entertainment expenditure that does not attract FBT liability is likely to be only partially deductible.

If employees are provided with entertainment benefits by their employer, they are only liable to FBT if employees can choose when they enjoy those benefits, or they can enjoy the benefit outside New Zealand. They are also liable to FBT only if that benefit is not enjoyed in the course of employment, or as a necessary consequence of employment. The distinction is between entertainment that benefits the employee and entertainment that does not benefit the employee but is provided by the employer.

## Fully Deductible Expenditure

Entertainment expenditure is fully deductible if it is incurred:

- Mainly in the course of business;
- In entertaining an existing or prospective client, mainly for business purposes;
- In entertaining staff to maintain good employment relationships; or
- In business, and for the purpose of gaining or producing income in that year.

It includes:

- Entertainment consumed or enjoyed outside New Zealand;
- Entertainment for which FBT is payable;
- Tax-free meal allowances paid to employees working overtime;
- Food and drink at conferences lasting longer than 4 hours;
- Meals on business travel unless a business contact is being entertained;
- Entertainment incidental to a public or business display that advertises the business;
- Samples for advertising and marketing purposes;
- Sponsoring of entertainment for advertising purposes where no benefits are received in return;
- Morning and afternoon teas in an executive dining room or a conference;
- Entertainment for review purposes;
- Entertainment for charitable purposes.

## Partially Deductible Expenditure

This is where the relevance of entertainment expenditure which attracts FBT becomes important for employers. The types of entertainment expenditure that are only partially deductible resemble those that attract FBT liability. Where entertainment expenditure looks like a benefit to the employee but it does not meet the test for “benefit” (where the benefit must be a benefit in the hands of the employee to enjoy away from their employment) it is only partially deductible because the IRD treats the expenditure as neither an expense of doing business nor an expense of employing. In terms of tax, partially deductible entertainment expenditure is in a “half-way house”. However, you do have to make GST adjustments for business entertainment expenses you have incurred that are only 50% deductible.



There are four types of entertainment expenditure that are partially (50%) deductible:

- Corporate boxes, marquees and tents where entry is exclusive and the event is a cultural, sporting or recreational nature occurring off business premises. This includes tickets or rights of entry to such boxes or areas;
- Accommodation in a holiday home, time-share apartment or similar facility that is not incidental to business activities or employment duties;
- Corporate pleasure boats;
- Food, drink and incidental expenditure associated with food and drink, provided or consumed:
  - In connection with the 3 already mentioned types of entertainment expenditure
  - On business premises at a party or social function for staff or staff and their guests
  - Off business premises at a party or social function for staff or staff and their guests

## Records

Employers must keep records in order to substantiate the deductibility of their entertainment expenses. In addition to receipts and invoices employers must keep records of dates, who were entertained, the business contacts, and the reasons for the entertainment. The sorts of information that must be stored on specific occasions are:

- Travel itineraries including who was visited, the purpose of the visit, and the dates and location details of the visit
- Conference attendance details, including who attended, the location and duration of the conference, breakdowns of all costs associated with the conference whether as the attendee or the provider, and details of all entertainment provided as part of the conference
- Promotion and product launch attendance records
- Sponsorship agreements and reciprocal benefits including market values as required

## Remember

- **Always call AdviceLine to check you have the latest guide**
- **Never hesitate to ask AdviceLine for help in interpreting and applying this guide to your fact situation.**
- **Use our AdviceLine employment advisors as a sounding board to test your views.**
- **Get one of our consultants to draft an agreement template that's tailor-made for your business.**

This guide is not comprehensive and should not be used as a substitute for professional advice.

*All rights reserved. This document is intended for members use only, it may not be reproduced or transmitted without prior written permission.*

Published: **June 2023**

