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# *Are you paying too much FBT on Meal Entertainment?*

30 March 2017

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## *In brief*

Fringe Benefits Tax (FBT) is a tax payable by employers on the value of certain benefits, known as fringe benefits, that have been provided to their employees or to associates of those employees (such as a spouse) in respect of their employment. There are a number of different categories of benefit, each of which has particular valuation methods and reporting requirements.

For employers that provide Meal Entertainment in the form of food or drink by virtue of Breakfasts, Lunches, Dinners, Meals, catering (on and off site) events, including seminars, roadshows, awards dinners, Christmas parties etc. to their employees, associates or clients, there is a requirement under Australian Law for these transactions to be assessed for FBT.

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## *In detail*

There are three methods to calculate the FBT on Meal Entertainment benefits provided:

- 50/50 Split Method,
- Actual Method, and
- 12 week register method.

Most employers use the 50/50 split method with a small population using the Actual Method.

The 50/50 split method is appealing to most employers as the level of administration involved is fairly minimal. Employers generally download the relevant general ledger accounts where their Meal Entertainment expenditure is captured, conduct a quick 'sense check' and then simply half the total dollar amount of those transactions and use that number in their FBT calculations. In most cases, using the 50/50 split method generally results in employers over-paying FBT, especially if the level of staff-related entertainment conducted by the employer is minimal. Furthermore, using the 50/50 method means that certain exemptions, such as the minor benefits exemption and the in-house dining exemption, cannot be utilised. It is important to correctly make the distinction between Meal Entertainment and Recreational Entertainment as Meal Entertainment can be subject to different valuation methods (such as 50/50 split) while 'recreation' is not. In addition, 'recreation' may need to be reported on the individual's payment summary while entertainment is not reportable.

For years, the 50/50 split method has been regarded as a safe harbour for employers who are looking for administrative ease, but potentially at the cost of a higher FBT bill. In an effort to save on these FBT costs, more employers are making the shift towards using the Actual Method as a way of calculating FBT on Meal Entertainment expenditure. The record keeping requirements for using the Actual Method makes it

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an unattractive method to pursue. It requires employers to keep detailed records on the names and number of employees per event, including maintaining details such as employees versus non-employee attendees at all events. Using the Actual Method however, does allow the employer to take advantage of the minor benefits and the in-house dining exemptions, which can result in significant FBT savings, especially where employees are not regularly entertained.

PwC are currently working together with clients to review historical data (as far back as the last six years) to determine (where applicable) whether the actual method would produce a more tax effective outcome when compared to the 50/50 split method. This has the potential to open up retrospective refund opportunities.

### ***The takeaway***

Notwithstanding the above, in order to make the most of the FBT exemptions available under the Actual Method and ultimately minimise the amount of FBT paid on Meal Entertainment, there are a number of employers who have made efforts to switch from the 50/50 method and move towards using the Actual method. This means employers would have to spend more time and resources analysing transactions and applying the relevant exemptions (where applicable) and also ensure that they remain compliant with the Australian Taxation Office's record keeping requirements.

Swift.ENT can help with a process that traditionally takes employers an average of three-six weeks, as it significantly reduces the time and effort required to analyse transactions contained in multiple general ledger accounts. Swift.ENT also easily identifies transactions which would be eligible for certain Meal Entertainment exemptions.

If you spend a significant amount of time and effort on analysing General Ledger accounts, and looking for transactions that relate to Meal Entertainment, please contact any of the PwC professionals below.

### ***Let's talk***

For a deeper discussion of how these issues might affect your business, please contact:

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