

Business Basics

ENTERTAINMENT EXPENSES

Almost every business incurs expenses during the normal course of doing business and many of these can be claimed as business expenses. Claimable business expenses effectively reduce the amount of income tax you need to pay, as they are deducted from the business' income to determine the net profit, or taxable income, which is used to calculate the income tax due. Although your accountant is an expert in claimable business expenses, it is important to be aware of which expenses can be claimed and what you need to do to keep track of them.

Entertainment Expenses

If you provide entertainment for your employees or customers during the course of doing business, some of these business entertainment expenses are tax deductible. Entertainment can include food, drink, social events and free samples. Some business entertainment expenses are fully deductible, while others are only 50% deductible. In addition, an entertainment expense benefitting employees may be subject to Fringe Benefit Tax. For this purpose, the IRD provides specific rules regarding different types of entertainment expenses which your accountant can help you to navigate.

In general terms, business-related entertainment expenses which are 50% deductible are deemed to include a significant private element, and include corporate boxes, holiday accommodation, recreational boats, gifts of food and drink, and food and drink provided on your premises (apart from light refreshments) for social events. Morning and afternoon tea provided for employees or clients on your business premises is fully deductible.

Some business-related entertainment expenses are 100% tax deductible depending on the specific circumstances, such as food and drink while travelling purely for business purposes, food and drink provided at business-related conferences, light meals provided in a dining area for senior management, freebies, and entertainment expenses incurred while promoting your goods or services.

GST On Entertainment Expenses

You can claim the full GST portion on all entertainment expenses you have incurred throughout the year. However, if the entertainment expenses are only 50% deductible you will need to make an adjustment once a year for the 50% non-deductible portion, or alternatively claim the correct portion throughout the year as the expenses are incurred.

Fringe Benefit Tax And Entertainment Expenses

If employees can enjoy an entertainment benefit at their discretion outside their employment duties, this benefit will be subject to FBT. Any entertainment expenses that come under the 50% deductibility rules are not liable for FBT.

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This table summarises some of the common entertainment expenses and their rate of deductibility.

Entertainment Expense	50% Deductible	100% Deductible
Friday night drinks for team members or clients in the office	✓	
Friday night drinks for team members or clients in the pub	✓	
Hire of a launch to entertain clients	✓	
Restaurants providing food and drinks to team members at a social function in their restaurant	✓	
Sponsoring local sports teams and receiving tickets to their corporate box in return. 50% of the value of the tickets would be deducted from the total sponsorship	✓	
Sponsoring a sports team by providing a meal for the team at their grounds after each game	✓	
Staff Christmas party on or off the business premises	✓	
Taking a client out to dinner while you are out of town on business - but still in New Zealand	✓	
Taking a client out to dinner	✓	
Holiday accommodation - holiday home, time share apartment or a similar leisure venue unless merely incidental to business activities or employment duties	✓	
Giving a client a gift of a bottle of wine or other beverage	✓	
Giving a client a gift of food, such as chocolates and cake at Christmas	✓	
Giving a client a gift hamper of food and beverage items	✓	
Giving a client a gift hamper containing food, beverage and non-edible items	In this case, the cost of the food and beverage items are 50% deductible while the non-edible items are 100%. If the cost is not separately identifiable the split costs should be appropriately apportioned	
Giving a client a gift of a restaurant voucher	✓	
Providing a meal for a journalist while reviewing your business for their column		✓
Providing morning and afternoon tea for your team		✓
Sandwiches provided at a lunchtime meeting of supervisors		✓
Sponsoring a local sports team		✓

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Entertainment Expense	50% Deductible	100% Deductible
Taking a client out to dinner while you are on business overseas		✓
Entertainment which is merely an incidental part of a trade display mainly held to advertise or promote the business		✓
Dinner for Sales Rep while out of town selling with no client present		✓
Donating food to a Christmas party in a children's hospital		✓
Employee's salary package includes a taxable allowance for entertaining clients		✓
Golf club subscription for business owner paid by the company		✓
Gym membership for staff member paid by employer		✓
Giving a client tickets to a sports game, concert, show or other recreational event (excluding corporate box entertaining)		✓
Giving a client a gift voucher, for example a Prezzy Card		✓
Giving a client a gift which is not related to food or beverages		✓