

Entertainment expenses

What you need to know about making claims



Inland Revenue
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IR268
December 2021

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This guide is A5 and can be economically printed two pages per A4 sheet. If you're printing from a downloaded PDF, check the layout settings in your printer options to achieve this.

About this guide

This guide explains how to account for entertainment expenses in your tax returns.

The information in this guide is based on current tax laws at the time of printing.

The guide explains:

- the difference between business-related entertainment expenses and private expenses
- which business-related entertainment expenses are 50% deductible and which are 100% deductible
- why you need to make adjustments for expenses in your tax returns.

Expenses when running a business

All businesses have expenses, such as builders have timber, fixings and roofing materials. Supermarkets have vegetables, dairy goods and groceries. Taxi drivers have petrol, oil, and airport charges.

Expenses pay for what you need to earn your income. They're also important for tax reasons.

If you're in business for yourself, you complete an annual income tax return showing your net profit for the year. You need to record (among other things) your gross income, expenses and net profit.

Here's a simple example of the net profit calculation:

Gross income	\$500
Less deductible expenses	<u>\$400</u>
Net profit	\$100

Expenses are deducted from your gross income. You pay tax on your net profit. You can only deduct business-related expenses for tax purposes.

Expenses help you earn your income.

All business people must file an income tax return every year.

Only business-related expenses are deductible.

Entertainment as part of your business

Business is not all work and no play. You can also claim the cost of entertainment to build up business contacts, keep your employees happy or promote your goods or services as an expense. If it's helping you earn your income, it's usually deductible when it's time to work out your tax.

The rules for entertainment expenses apply to deductions in your income tax return, though you may need to make an annual adjustment in your GST return (see page 19).

Business-related entertainment expenses

Very specific rules apply to different categories of entertainment. Some entertainment expenses can be fully deducted, while others can only be 50% deducted.

For example, the use of an "executive dining room" is one of the categories you can claim for, but the cost may or may not be fully deductible depending on how it's used. Most types of entertainment will fall under the categories listed in this guide.

We've defined terms to help make the rules clear, but in some cases, the wording requires you to make a judgement, for example, defining a "light" meal. You may also have to work out if the expense is a fringe benefit (see page 6). If you're not sure, contact a tax advisor.

What are private entertainment expenses?

It should be clear when expenses are business-related or private. An entertainment expense is business-related if you spend the money to help your business earn income.

2 common examples are:

- entertaining an existing or potential business contact
- holding an event for employees to improve engagement, for example, a party or team-building activity.

If the expense does not help your business earn gross income, it's private and you cannot claim it as a tax deduction, even if you paid for it out of your business account.

Example

Mary took the family out for a meal. They used the business credit card to pay for the meal. Mary cannot claim the cost of the meal as entertainment expenses because it's a private expense.

A business-related entertainment expense may be 50% or 100% deductible.

Entertainment can mean food and drink, social events, trips, accommodation, privileges, musical, sporting or theatrical events and freebies (free samples).

You can never deduct your private entertainment expenses, even if you pay for them from a business bank account.

Entertainment expenses and Fringe Benefit Tax (FBT)

A fringe benefit includes most benefits given to employees other than salary or wages. For example, motor vehicles for private use or free, subsidised or discounted goods and services. If these benefits are enjoyed or received by employees as a result of their employment the benefits are liable for FBT. All employers and businesses who provide fringe benefits must file regular FBT returns with Inland Revenue.

An entertainment expense where the benefits are enjoyed or received by employees may be subject to FBT. If it's a business-related entertainment expense which is only 50% deductible (see page 7) it is not subject to FBT, however there is an exception. FBT will be payable if the employer provides the 50% deductible entertainment and:

- the employee can choose when and where to enjoy the benefit, or the benefit is enjoyed outside of New Zealand, and
- the benefit is not provided in the course of, or as a necessary consequence of, the employee's employment duties.

Read about fringe benefits at ird.govt.nz/fbt or download our **Fringe benefit tax guide - IR409**.

Example

This month, Patrick delivered some impressive results at work, and is given a \$100 gift voucher by their employer Jillian. Because Patrick can spend the voucher how they like, Jillian must pay FBT on the \$100. Jillian declares it on their FBT return and pays tax on the \$100.

How GST affects what you can claim

If you are registered for GST, the entertainment expenses in your income tax return must be **GST-exclusive**.

If you are not registered, your expenses are **GST-inclusive**.

Keep records

When you deduct an expense, you need to have invoices and receipts to support your deduction.

Keep a record of people you entertain, the date and the reason. At the end of the year, it will make it easier to complete your income tax return.

Keeping good records makes tax time a lot easier.

50% deductible entertainment expenses

Some business-related entertainment expenses are 100% deductible. Others are set as 50% deductible because they have a significant private element. Even if you think that the private element was more or less than 50% of the expense, you can only claim 50% of the expense as a deduction.

The following types of entertainment include a private element and cannot be 100% deducted. In general, an entertainment away from work or out of usual work hours has a private element.

A private element means the entertainment expense is not completely business related.

Corporate boxes

Expenses for entertainment you provide in boxes, marquees, tents or similar exclusive areas (permanent or temporary) at cultural, sporting, other recreational events or away from your business premises, are only 50% deductible. This also applies to the cost of tickets and any food and drink provided.

Holiday accommodation

If you have business expenses for a holiday home, time-share apartment or similar venue, you can deduct only 50% of the cost of accommodation as well as 50% for food and drink expenses relating to using the accommodation.

You can claim a deduction of 100% if using the accommodation is secondary to the business activities or employment duties. Contact a tax advisor if you need help working this out.

Example

Catriona is self-employed and travels to Queenstown to attend a meeting with business clients. Because no other accommodation is available they stay at a holiday home while in Queenstown for the meeting. Catriona can deduct 100% of the cost of the holiday home as an expense.

Recreational boats

You can deduct only 50% of business expenses on:

- yachts
- launches, or
- similar recreational boats.

You can deduct 50% of the cost of food and drink accompanying the use of a recreational boat.

Example

Eileen is a business owner and hires a large yacht to take the management team out on the harbour for a planning day. The cost of the trip is 50% deductible.

Food and drink at work

You can deduct only 50% of the cost of food and drink you provide at your business premises (other than light refreshments):

- at a social event, for example, celebration meal, party, reception, or
- in an area restricted to senior employees, such as an executive dining room.

This rule applies whether the entertainment is provided to staff or to guests invited from outside the business.

Example

ABC Ltd puts on a Christmas party for its employees. It holds the party at work. The company can claim 50% of the costs.

Light refreshments, like morning and afternoon teas, are 100% deductible.

Offsite food and drink

Food and drink provided away from your business premises is only 50% deductible.

Example

Hannah invites a supplier to a business lunch at a local restaurant and pays the bill, which comes to \$160. Hannah deducts 50% of the cost (\$80) in their income tax return.

Gifts of food and drink

Gifts of food and drink that will provide a private benefit to the recipient and a business benefit to the taxpayer are only 50% deductible.

Example

Real estate agent Bob delivers a bottle of champagne to the owner each time the sale of a house is arranged. Bob can only deduct 50% of the cost of the bottle of champagne, as this is providing entertainment away from the business premises in the form of drink.

Bob also sends a gift basket containing a bottle of wine, some cheese and various household items such as tea towels and soaps to the purchaser. Bob can deduct the full cost of the tea towels and soap, because these items are not food and drink. Bob can only deduct 50% of the cost of the wine and cheese. If the cost cannot be identified separately, then an appropriate amount should be apportioned.

Supporting expenses

If you provide entertainment that's only 50% deductible, you can only deduct 50% of any "supporting" expenses. For example:

- running costs, repairs and maintenance for corporate boxes, holiday accommodation and recreational boats
- hire of crockery, glasses, waiting staff and music.

100% deductible entertainment expenses

Some business-related entertainment expenses might look as though they are only 50% deductible, but specific rules mean you may be able to claim 100% of the expense. You need to check the rules carefully when there is a mix of situations which may have different rates.

Entertainment expenses will be 100% deductible and not liable for FBT if they are completely business related.

This includes:

- meals an employee buys while travelling on business (unless it is with an existing or potential business contact, or the meal is a celebration, reception or similar event – in these situations it would only be 50% deductible)
- food and drink provided at a conference, education course or similar event that lasts at least 4 hours (unless the conference is mainly for entertainment – in which case it would only be 50% deductible)
- light meals provided in a dining room for senior managers and consumed as part of their duties (such as sandwiches provided during a board meeting)
- entertainment that promotes your business publicly (the public must have the same access to this as your employees, business contacts or people associated with the business – if the public has less access it would only be 50% deductible)
- entertainment that is only a secondary part of either a function that is open to the public, or any trade display (for example, serving coffee at your business's trade display)
- freebies promoting your business (such as branded stationery, but excluding any given to employees or people associated with you – these are only 50% deductible)

- entertainment provided to someone who is going to review it for publication (such as giving a free meal to food critics)
- entertainment provided at a discount, if your business regularly provides entertainment at market prices (for example, offering half-price meals at your restaurant)
- entertainment enjoyed outside of New Zealand.

50% deductible and not liable for FBT

Entertainment expenses will be 50% deductible and not liable for FBT if they are not completely business related. This includes entertainment that is away from work or out of usual working hours, so that it has a 'significant private element'. The expense will be 50% deductible even if you think the private element was more or less than 50%.

Examples of this include:

- entertainment at sports or cultural events (for example, a corporate box)
- business use of a holiday home
- hiring a boat, and providing food and drink to people on it
- food and drink you provide for social events (such as parties) or in an area set aside for senior employees (though there is an exception for 'light meals' consumed as part of the manager's duties, which are 100% deductible)
- gifts of food and drink that benefit your business and are enjoyed privately by the person who receives them (for example, if you give a bottle of wine to each customer who buys a car off you)
- 'supporting expenses' for other entertainment that is 50% deductible (such as hire of wine glasses and wait staff for a party).

100% deductible and liable for FBT

Entertainment expenses will be 100% deductible and liable for FBT if they are received by employees because of the work they do. An example of this includes a reward for good performance, such as a restaurant gift voucher or a weekend away.

Food and drink while travelling on business

If you or one of your employees buys a meal while travelling on business, the cost is 100% deductible. That's despite the rule which says that food and drink provided away from your business premises is only 50% deductible.

However you can only deduct 50% of the cost of food and drink consumed if either:

- the trip is mainly for the purpose of enjoying entertainment, for example, a team bonding trip, or
- the meal or function involves an existing or potential business contact as a guest, or
- a celebration meal, party, reception or similar occasion where you will not be working.

Light refreshments, like morning and afternoon teas, are 100% deductible, regardless of the length of the conference.

Food and drink provided at a conference

You can deduct 100% of the food and drink you provide at a conference, education course or similar event that lasts for four consecutive hours or more (not counting meal breaks).

If the conference is mainly for the purpose of entertainment the expenses are only 50% deductible.

Light meals provided in a dining room for senior managers

You read earlier that you can only deduct 50% of the costs of food and drink you provide at your business premises in an area restricted to senior managers.

You can claim 100% of the expense of the food or drink if it's:

- a light meal, and
- consumed as part of the manager's employment duties.

Example

Once a month, the senior managers at XYZ Ltd meet in their executive dining room to review the month's production figures. The light meal of sandwiches and fruit they share is 100% deductible.

Promoting your business, products or services

If you supply entertainment to promote a business or the business's products or services to the public, you can deduct 100% of the costs.

But you can only deduct 50% of the costs if:

- the business contacts or employees of the business being promoted have a greater opportunity to enjoy the entertainment than the general public
- anyone associated with the business being promoted has a greater opportunity to enjoy the entertainment than the general public.

For more information about associated persons, see **A guide to associated persons definitions for income tax purposes - IR620.**

Secondary promotion costs

Despite the previous 50% limitation rule, you can claim 100% of entertainment expenses which only form a secondary part of a trade display or function held to promote a business.

To claim 100% of the cost of this expenditure, the function must be open to the public. A trade display does not need to be open to the public to claim 100% of the secondary expense.

Freebies may be 100% or 50% deductible.

Freebies

You can deduct 100% of the cost of freebies promoting your business. You can only deduct 50% of the cost of freebies you give employees or people associated with you.

Entertainment for review

Entertainment which you provide to someone who's going to review it for publication (for example, in a magazine, newspaper or on a website) is 100% deductible.

Example

A restaurant provides a free meal to a food critic who will write a review of the restaurant for their newspaper column. The restaurant can claim 100% of the meal's cost.

Entertainment as a business

If you provide entertainment in the ordinary course of your business at market prices or in an arm's-length transaction, you can deduct 100% of the entertainment costs.

Example

Every Tuesday night, a restaurant offers half-price meals to the general public. The restaurant can deduct 100% of the cost of these meals.

Meals provided free to restaurant employees are 50% deductible.

Entertainment supplied for charity

You can deduct 100% of the cost of entertainment you supply to the general public for charitable purposes.

Example

A building firm donates food to a Christmas party at a children's hospital. The expense is 100% deductible.

Offshore entertainment

Entertainment enjoyed or consumed outside New Zealand is 100% deductible. Note that New Zealand includes the waters around New Zealand.

Example

RST Ltd holds a business-planning conference in Perth, Australia. The costs are 100% deductible because the entertainment is held outside New Zealand.

RST Ltd also provides entertainment for employees and clients on a recreational fishing boat. The boat travels 20 km from the North Island. The costs are only 50% deductible because the boat is still in New Zealand.

Entertainment enjoyed or consumed outside New Zealand is 100% deductible.

Claiming for reimbursed entertainment expenses

An employee who pays for an entertainment expense upfront may get an allowance from their employer to reimburse them. It depends whether the allowance is tax free or taxable. The rate is either 50% or 100%. See our website for examples of each type.

An allowance may be tax free or taxable. Our website gives examples of each.

Tax-free allowances

If an employee pays for entertainment that's 50% deductible, for example, a meal for a potential business customer and you reimburse the employee with a tax-free allowance, you can deduct 50% of the allowance.

A tax-free meal allowance paid to an employee working overtime is 100% deductible.

Taxable allowances

You can deduct 100% of any taxable entertainment allowances you pay your employee.

For more details, go to ird.govt.nz/allowances

Extra benefits can reduce your deduction

If you pay for entertainment and you get an extra benefit back as a result, you'll need to adjust the amount of the deduction in your income tax return.

The two most common situations where you'll need to do this are promotions and employee contributions.

Promotions

You can deduct 100% of expenses in promoting your business. But, if you receive an extra benefit, you have to deduct 50% of the value of the benefit from your expense deduction.

Example

Kiz Ltd provides \$5,000 of sponsorship to a local netball team, who wear outfits with the Kiz logo on it, giving the company brand exposure. In return, Kiz Ltd gets tickets worth \$590 to the team's corporate box. This is the extra benefit.

Instead of deducting the full \$5,000, Kiz Ltd must take into account 50% of the tickets' price.

Sponsorship expense (100%)	\$ 5,000
Less tickets:	
50% of \$590	<u>\$ 295</u>
Adjusted deduction	\$ 4,705

You'll need to make an adjustment for employee contributions.

Employee contributions

If you provide entertainment to an employee, and they contribute to the costs, you reduce your expense claim by the amount of the contribution.

Example

Bernadette buys Christmas lunch for all five employees. Each person's lunch costs \$42 and they each contribute \$10 (the extra benefit).

Bernadette is GST registered, so the expenses are GST-exclusive.

Cost of meal (including GST)	\$210.00
Less employee contributions	<u>\$ 50.00</u>
	\$160.00
Less GST	<u>\$ 20.87</u>
Bernadette pays (GST-exclusive)	\$139.13
Bernadette can only deduct 50% of \$139.13 =	\$ 69.57

Making adjustments in your GST return

Although the entertainment rules apply to deductions in your income tax return, you may also need to make a GST adjustment.

If you're registered for GST, you can usually deduct the full amount of all your business-related entertainment expenses in your GST return. You add the expenses to Box 11, along with the other expenses you're deducting.

You need to make an annual adjustment for any entertainment expenses that are 50% deductible. You make the adjustment in Box 9. For more information see our **GST guide - IR 375**.

You'll need to make an adjustment for entertainment expenses that are 50% deductible.

When to make the GST adjustment

You make your annual adjustment on the earlier of:

- the date your income tax return is due, or
- the date you actually file your income tax return.

You then follow these steps:

1. Take the non-deductible expense figure from your income tax return. This figure is GST-exclusive.
2. Multiply it by 0.15 to give the GST component (15% of the GST-exclusive figure).
3. Add the GST component to Box 9 of your GST return.

Example

In August 2018, Rick takes a supplier out to lunch. The lunch costs \$225, which is 50% deductible.

Rick is GST registered and files two-monthly GST returns for January, March, May, July, September and November. He deducts the full cost of the lunch (\$225) in Box 11 of his September 2018 GST return.

Rick has the standard 31 March balance date, so the August 2018 lunch date falls in his 2019 tax year. His 2019 income tax return is due by 7 July 2019 and he files early, on 27 June 2019.

The figures in Rick's income tax return are GST-exclusive.

He calculates his income tax deduction like this:

Cost of the meal (including GST)	\$225.00
Less GST content	<u>\$ 29.34</u>
GST-exclusive cost	\$195.66
Rick's income tax deduction (50%)	\$ 97.83

(The non-deductible expense is also \$ 97.83.)

He calculates his GST adjustment as follows:

Non-deductible expense	\$ 97.83
GST content ($\$97.83 \times 0.15$)*	\$ 14.67
Rick's GST adjustment	\$ 14.67

Rick must add the adjustment to the GST return that covers 27 June 2019 because he filed it before the date it was due.

He adds the \$14.67 adjustment to Box 9 of his July 2019 GST return.

* Note: before 1 April 2018 the GST content was calculated $\$97.83 \times 3 \div 23 = \12.76

Employees' contributions

If an employee contributes towards an expense, treat the 2 items separately.

- Deduct the expense in Box 11 of your GST return.
 - Add the employee contribution to Box 5.
-

Penalties and interest

If you make a mistake with your entertainment expenses, you may be charged penalties. Unpaid amounts may also be liable for interest. Please check your deductions before you complete your return.

Have you:

- kept complete records
- deducted only business-related expenses
- worked out which expenses are 50% deductible and which are 100% deductible?

Most people deduct their expenses correctly, but anyone who's careless or dishonest may be charged penalties.

There's more information in our guide **Penalties and interest -IR240**. If you have any questions about entertainment expenses contact your tax advisor.

Remember to check your deductions before you complete your return.

Terms we use

Arm's-length transaction	A transaction where the buyer and seller of a product or service act independently and have no relationship with each other.
Associated person	A person you're related to (for example, a parent, child, brother or sister) or someone you have a business relationship with (for example, companies in a group, a partner and a partnership, trustee and settlor of a trust).
Business contacts	People you or an associated person do business with, including your customers, clients, suppliers, shareholders, and other financiers.
Business premises	The normal place where you or an associated person do business, including any temporary workplaces, like a building site.
Business-related expense	An expense to help your business earn income. Most business-related expenses are deductible.
Deductible	An expense you can deduct from the gross income in your income tax return to work out your taxable income.
Entertainment	A range of expenses, including food and drink, corporate boxes, holiday accommodation and recreational boats.
Freebie	A sample or other item given away free normally to promote a business.
Fringe benefit	A non-cash benefit provided to an employee or an associated person. Most benefits given to employees other than their salary or wages are fringe benefits.
Non-deductible	A non-deductible expense cannot be offset against your gross income and does not appear in your income tax return.
Private expense	Any expense which is not business related. Private expenses are not deductible.

How to contact Inland Revenue

How to get our forms and guides

You can get copies of our forms and guides at **ird.govt.nz/forms-guides**

Need to speak with us?

Have your IRD number ready and call us on one of these numbers:

General tax, tax credits and refunds	0800 775 247
Employer enquiries	0800 377 772
General business tax	0800 377 774
Overdue returns and payments	0800 227 771

We are open 8am to 6pm Monday to Friday, and 9am to 1pm Saturday. We record all calls. Our self-service lines are open 7 days a week. They offer a range of automated options, especially if you are enrolled with voice ID.

Find out more at **ird.govt.nz/contact-us**

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your tax and entitlements under the Acts we administer. We may also exchange information about you with some government agencies and another country.

Find our full privacy policy at **ird.govt.nz/privacy**

Inland Revenue's services

myIR

You can manage your tax and entitlements online with a myIR account.

In myIR you can:

- check if you are due a refund
- keep up-to-date with your student loan
- check and update your Working for Families Tax Credit details
- review your KiwiSaver contributions
- manage your child support payments
- file returns
- update your contact and bank account details

myIR is available 24 hours a day, 7 days a week.

Find out more, and register, at ird.govt.nz/myir

Forgotten your user ID or password

Request these from the myIR login screen and we will send them to the email address we hold for you.

ird.govt.nz

Go to our website for information and to use our services and tools.

Follow us on social media

Follow our social media channels for important updates, information and reminders to help you get your taxes and entitlements right.

- Facebook - @IRDNZ
- LinkedIn - Inland Revenue NZ
- Twitter - @NZInlandRevenue

Language assistance - ezispeak

If English is not your preferred language, ask for **interpreter** and the language you want when you call us. We will connect with an ezispeak interpreter to help with the call. There are over 300 languages available with ezispeak. Find out more at **ezispeak.nz**



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