

Entertainment expenses

What you need to know about making claims



Inland Revenue
Te Tari Taake

IR268
October 2016

Contents

About this guide	3	<hr/> <p>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.</p> <hr/>
Why paying tax matters	4	
Expenses when running a business	5	
50% deductible entertainment expenses	8	
100% deductible entertainment expenses	12	
Claiming for reimbursed entertainment expenses	16	
Extra benefits can reduce your deduction	16	
Making adjustments in your GST return	18	
Penalties and interest	20	
Terms we use	21	
How to contact Inland Revenue	22	
Privacy	22	
Inland Revenue's services	23	

About this guide

This guide shows business people who have entertainment expenses how to account for them correctly in their tax returns.

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

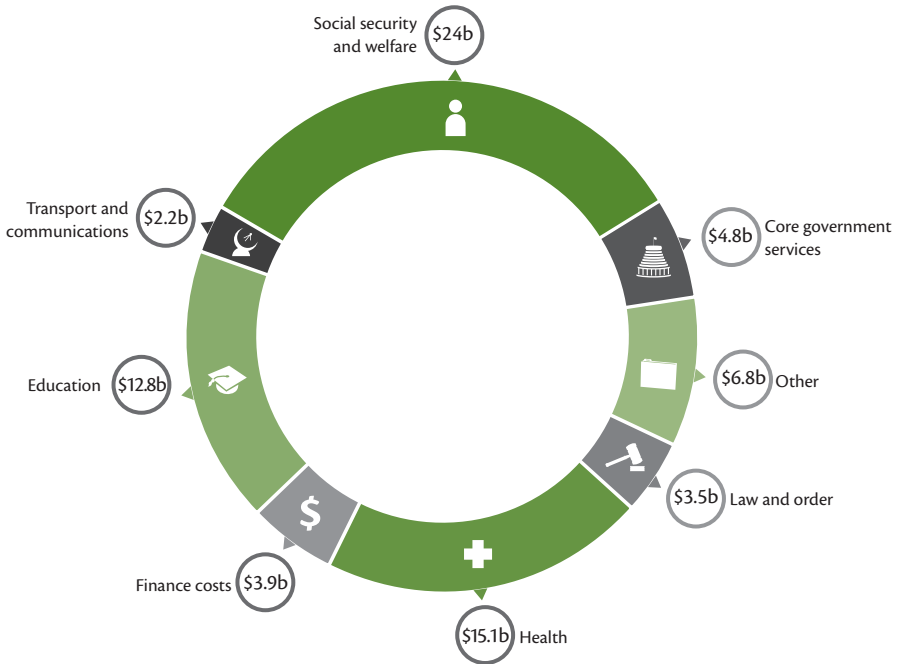
The guide explains:

- 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
- a glossary to help you understand the tax terms we use.

Why paying tax matters

Everyone who earns money in New Zealand must pay their share of tax. Here's how the Government spent our taxes in 2014.

The government uses taxpayers' money to pay for services we all need.



Expenses when running a business

All businesses have expenses. 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 file 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 18).

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, eg, defining a "light" meal. You may also have to work out if the expense is a fringe benefit (see page 7). 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.

Two common examples are:

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

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

Example

Mary took her family for a meal out. She used her business credit card to pay for the meal. Mary can't 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 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 (fringe benefit tax). 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 8) it isn't subject to FBT. But 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 www.ird.govt.nz (search keyword: fbt) or download our *Fringe benefit tax guide (IR409)*.

Example

This month, Patrick delivered some impressive results at work. His employer Jillian gives him a \$100 gift voucher. Because Patrick can spend the voucher how he likes, Jillian must pay FBT on the \$100. She declares it on her 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're **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.

If you're registered for GST, the expenses in your income tax return must be GST-exclusive.

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 can't 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 isn't 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 she stays 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 her 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, eg. 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. She deducts 50% of the cost (\$80) in her 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 he arranges the sale of a house. He can only deduct 50% of the cost of the bottle of champagne as he is providing entertainment away from his 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. He can deduct the full cost of the tea towels and soap, because these items are not food and drink. But he can only deduct 50% of the cost of the wine and cheese. If the cost can't 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's a mix of situations which have different rates.

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.

But you can only deduct 50% of the cost of food and drink consumed:

- if the travel is mainly for the purpose of enjoying entertainment, or
- at a meal or function involving an existing or potential business contact as a guest, or
- at a celebration meal, party, reception or similar occasion while you're travelling.

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

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. But 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 (IR 620)*.

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

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.

Freebies may be 100% or 50% deductible.

Entertainment for review

Entertainment which you provide to someone who's going to review it for publication (eg, 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, eg, 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 www.ird.govt.nz (search keyword: 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

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 her five employees. Each person's lunch costs \$42 and they each contribute \$10 (the extra benefit).

Bernadette is GST registered, so her 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
so she can only deduct 50% of \$139.13 =	\$ 69.57

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

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
2. Multiply it by 3/23 to give the GST content
3. Add the GST content to Box 9 of your GST return.

Example

In August 2015, 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 February, April, June, August, October and December. He deducts the full cost of the lunch (\$225) in Box 11 of his August 2015 GST return.

Rick has the standard 31 March balance date, so the August 2015 lunch date falls in his 2016 tax year. His 2016 income tax return is due by 7 July 2016 and he files early, on 27 June 2016.

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 ($\$97.83 \times 3/23$)	\$ 12.76
Rick's GST adjustment	\$ 12.76

Rick must add the adjustment to the GST return that covers 27 June 2016 because he filed it before the date it was due.

He adds the \$12.76 adjustment to Box 9 of his June 2016 GST return.

Employees' contributions

If an employee contributes towards an expense, treat the two 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 file 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* (IR 240). If you have any questions about entertainment expenses contact your tax advisor.

Remember to check your deductions before you file 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 (eg, a parent, child, brother or sister) or someone you have a business relationship with (eg, 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 can't be offset against your gross income and doesn't 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 all our forms and guides by going to www.ird.govt.nz and selecting "All forms and guides" from the right-hand menu, or by entering the shoulder number in the search box. You can also order copies by calling 0800 257 773.

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 377 771

Our contact centre hours are 8am to 8pm Monday to Friday, and Saturday between 9am and 1pm. We record all calls. Our self-service lines are open at all times and offer a range of automated options, especially if you're enrolled with voice ID.

For more information go to www.ird.govt.nz/contact-us

Privacy

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

For full details of our privacy policy go to www.ird.govt.nz (search keyword: privacy).

Inland Revenue's services

myIR

A myIR account lets you manage all your Inland Revenue matters securely online. You can update your address, phone, email or bank account details, check your eDocuments, work out your income tax filing options and check your KiwiSaver account.

Register for a myIR account today to:

- check if you're due a refund
- file an EMS, IR3 tax return or GST return
- see payments to or from Inland Revenue (including child support and student loans)
- manage your alert email settings
- apply for/manage your Working for Families Tax Credits.

myIR is available 24 hours a day, seven days a week. Go to www.ird.govt.nz/myIR to find out more.

Forgotten your user ID or password?

Request these online and we'll send them to the email address we hold for you.

www.ird.govt.nz

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

Follow us on Twitter

Follow [@NZInlandRevenue](https://twitter.com/NZInlandRevenue) for tweets on tax and social policy matters, including media releases, due dates and consultations.

Business Tax Update

Get all your business tax news in one newsletter. Our *Business Tax Update* gives you updates on PAYE, GST, FBT and other relevant tax issues. Subscribe at **www.ird.govt.nz/subscribe** and we'll send you an email when we publish each issue.

Language Line

Language Line is a free, phone-based interpreter service for customers whose first or preferred language isn't English. Over 40 languages are available - go to **www.languageline.govt.nz** for the full list. Whenever you need to talk to us you can ask for a Language Line interpreter and choose the language you feel most comfortable using.