

PRESS RELEASE

MHK CHARTERED ACCOUNTANTS UPDATE ON DEDUCTIBILITY OF GIFTS OF FOOD & DRINK

Many businesses provide food and drink in various guises to customers, prospects and staff during the year, more so over the festive Xmas season.

There is often confusion about these costs, are they:

- 100% tax deductible?
- 50% tax deductible?
- Non-deductible?
- Liable to FBT?

The IRD have recently sent out an update clarifying their “Operational position” on deducting expenses, stating:

“The entertainment expense rules limit tax deductions for certain types of expenses to 50% of the cost. One type of expense covered is the expense of providing food and drink off business premises. This means that spending on things like chocolates or a bottle of wine to give as gifts to customers, clients or suppliers for example, is only 50% deductible. If the items are purchased as a gift basket or together with other items that aren't food and drink, the expense must be apportioned between fully deductible and not fully deductible.”

“It is gratifying that the IRD have clarified this position. This statement is different to that previously made by the IRD in other newsletters in recent years, and it is pleasing that positions taken by taxpayers under their previous guidelines, where those differ from these latest guidelines, will not be challenged by the IRD”

The IRD confirm “The above information is different to two items that appeared in previous *Business Tax Update* newsletters (Issue 26, December 2011 and Issue 27, February 2012). The Commissioner considers the correct position to be as set out above, and will apply this to tax positions taken starting 1 September 2016.”

We have compiled a list of some common spending, and the currently stated tax treatment by the IRD:

Corporate boxes – tickets, food & drink provided in boxes, marquees, tents or similar exclusive areas (permanent or temporary) at cultural, sporting, other recreational events or away from your business premises	50% deductible
Food and drink at work	50% deductible
Light refreshments at work, like morning and afternoon teas	100% deductible
Offsite food and drink	50% deductible
Gifts of food and drink	50% deductible
Food and drink while travelling on business	Generally 100% deductible
When travelling on business, having a meal or function involving an existing or potential business contact as a guest, or a celebration meal, party, reception or similar occasion while you're travelling.	50% deductible
Food and drink provided at a conference for four consecutive hours or more, not counting meal breaks, and not an “entertainment” conference.	100% deductible
Light meals provided in a dining room for senior managers if consumed as part of the manager's employment duties	100% deductible
Promoting a business or the business's products or services to the public	100% deductible
Freebies to the public or a columnist	100% deductible
Freebies to staff or associated people	50% deductible
Offshore Entertainment	100% deductible
Private entertainment expenses eg a meal with family	non deductible
Part Business, part private	Apportionment needed

This list is not exhaustive and some variations may apply in different circumstances, contact MHK Chartered Accountants for clarifications on any particular circumstance you may have.

MHK Chartered Accountants specialise in business structuring and legally minimising all types of taxation obligations and offer a no-obligation discussion free of charge. For more information on this, and MHK Chartered Accountants, see <http://aucklandaccountant.net.nz>.