

## Guide: Is the expenditure only 50% deductible?

The entertainment expense account should be reviewed to check for expenditure that is only 50% deductible.

### Not deductible at all - private expenses

Cost of entertainment (eg food and drink, corporate boxes, pleasure craft) incurred by a sole trader when alone or taking out family or friends. This type of expense has no connection with income and so is not deductible at all.

The following table shows some examples of entertainment and whether they are 100% or 50% deductible:

Type of entertainment	
100% deductible	50% deductible
<p><b>Food and drink while travelling</b> Cost of food and drink while travelling on business or while performing employment duties. Some exceptions apply (eg dining with a business contact). See second column for more exceptions.</p> <p><b>Food and drink at conference</b> Food and drink at a conference or educational course lasting for at least 4 consecutive hours (excluding meal breaks). If the conference is mainly for the purposes of entertainment, the expenditure will be only be 50% deductible.</p> <p><b>Food and drink on premises</b> Cost of light refreshments such as morning tea consumed on the business premises. <i>Example</i> Cost of providing employees with tea, coffee and biscuits. Cost of light meals consumed on the business premises as part of employment duties in an area reserved at the time for senior employees <i>Example</i> A light meal provided at a directors' meeting in a room reserved for senior employees.</p> <p><b>Promotions</b> Cost of entertainment to advertise or promote goods or services to the public unless any of the following have a greater opportunity to enjoy the entertainment than the general public</p> <ul style="list-style-type: none"> <li>• existing business contacts</li> <li>• employees</li> <li>• associated persons</li> </ul> <p>Cost of entertainment in relation to a trade display or function open to the public to mainly promote the business or goods/services.</p> <p><b>Samples</b> Cost of samples for promotion or advertising (excluding samples provided to employees or associated people).</p> <p><b>Entertainment for review</b> Cost of entertainment where the person is reviewing the entertainment for a book, magazine, paper or other medium of communication.</p>	<p><b>Food and drink off premises</b> Cost of food and drink provided off the business premises*. See first column for exceptions. <i>Examples</i> Cost of taking out a customer or client for lunch. Cost of taking employees out for dinner at a restaurant. A formal event for key customers held offsite involving pre-dinner drinks, dinner and music. The cost of a bottle of wine or box of chocolates provided to a client.</p> <p><b>Food and drink on premises</b> Food and drink provided on the business premises at a celebration meal, party or similar social function*. See first column for exceptions relating to light refreshments. <i>Examples</i> Friday night drinks. Christmas lunch held on the premises for employees. Food and drink (other than light refreshments) provided in an area reserved for senior employees that is not open to all employees*. <i>Example</i> Dinner provided at a directors' meeting in a room reserved for senior employees.</p> <p><b>Food and drink while travelling</b> Cost of food while travelling where the main purpose of the travel is entertainment. Cost of food and drink at a meal while travelling on business, and an existing or potential business contact is a guest at the meal or function. <i>Example</i> The cost of taking out a client to lunch or dinner while travelling on business. Cost of food at a celebration meal, party, reception or other similar social function while travelling.</p> <p><b>Corporate boxes</b> Cost of tickets, food and drink in relation to corporate boxes, marquees, tents or other exclusive areas at cultural, sporting or other recreational events*.</p> <p><b>Holiday accommodation</b> Cost of accommodation in a holiday home, time share apartment or other similar place (including cost of incidental food and drink)*. This excludes accommodation that is incidental to business activities or employment duties.</p>

### Entertainment outside NZ

Cost of entertainment consumed or enjoyed outside New Zealand.

#### Example

Cost of taking a client out to dinner in Australia while visiting the client for business purposes.

### Fringe benefits

If entertainment is provided to employees, FBT may apply if the employee receives a private benefit from the entertainment. Generally, the cost of providing a fringe benefit to an employee is 100% deductible on the basis that the benefit is a way of rewarding the employee for services performed.

FBT will apply if the employee—

- can choose when to receive or use the entertainment; or
- does not receive or use the benefit in the course of their employment duties.

#### Examples

A restaurant voucher is provided to an employee for completing a project. The cost of the voucher is fully deductible but subject to FBT because the employee can choose when to use the voucher. (Note that no FBT will apply if the cost is within the *de minimis* exemptions).

An all-expenses paid trip, staying in a time-share resort in Hawaii, is offered as a sales incentive to staff who achieve certain targets. The cost of the trip is subject to FBT because the benefit is enjoyed outside New Zealand and is not enjoyed in the course of employment duties.

An employee travels to Napier, where she takes a client out for dinner. The business contact is a guest, therefore the cost of both meals is 50% deductible. FBT is not payable because the benefit is consumed as part of employment duties.

### Charitable entertainment

Cost of entertainment provided to members of the public for charitable purposes.

### Pleasure craft

Expenditure on yachts (or similar) including costs of incidental food and drink\*.

#### Example

Cost of chartering a boat to take clients on a fishing trip.

\* Includes cost of hireage of crockery, glassware or utensils, waiting staff, music or other entertainment provided in association with the specified kind of entertainment.

**Note:** The above entertainment rules don't apply to assets (for example, yachts and other pleasure craft) that are subject to the mixed-use asset rules.

**Law:** Income Tax Act 2007, subpart [DD](#).

Last reviewed: 13 March 2018