

Entertainment Expenses - Q & A

Client Meetings held off-premises (eg cafes) –refreshments

Last reviewed: 03 May 2006

10 June 2003

Question

Brandy Ltd, is a marketing company. Brandy Ltd has numerous business seminars and meetings which do not exceed four hours at a time. Many meetings take place in a cafe-type environment between Brandy Ltd and prospective clients or small breaks are taken while on the road between meetings.

Does the purchase of light refreshments of the type which would be provided for a morning or afternoon tea (eg, coffee and cake) fall under the 50% entertainment regime?

Answer

Arguably not.

Initially, the purchase of light refreshments does fall under the 50% entertainment regime. Entertainment includes “food or beverages ...”.

However, there is an argument that the cost of light refreshments, such as you describe, provided at an off-site meeting between Brandy Ltd and prospective clients is 100% deductible.

The definition of excluded entertainment includes:

“A reasonable amount of food or beverages provided by a person as a morning or afternoon tea or as a light refreshment of similar quantity and quality to a morning or afternoon tea—

- (a) In an area of the person's premises such as a boardroom or an executive or client dining room, reserved for use at the time only by those at a certain level of seniority and their guests and not open to all employees of the taxpayer working in the premises; or
- (b) At a conference, educational course, or similar event, unless the event is principally for the purposes of entertainment

Entertainment regime and definition of “light meal”

Last reviewed: 03 May 2006

12 March 2004

Question

What types of meal are considered by the IRD to fall within the definition of “light meal” for the purposes of the entertainment regime it limits deductions of specified entertainment expenditure to 50%?

Answer

The IRD considers a “light meal” to be sandwiches and other “finger food” (such as savouries, fruit and muffins), salads and fruit juice. Normal commercial practice will be the yardstick to determine what constitutes a light meal.

Deductions — entertainment expenditure

Last reviewed: 07 June 2007

6 March 2007

Question

1. Are staff functions held off-site to maintain goodwill fully deductible?
2. What is the threshold for a business lunch to be fully deductible (in that the purpose is more business related than entertainment related)?

Answer

1. No. Staff functions held off-site are not fully deductible. Food and drink that a person provides off their business premises are subject to the entertainment regime and only 50% deductible. There are a number of limited exceptions. However, none apply in this instance.

2. Unless the business lunch comes within the following exceptions the deduction will be limited to 50%. A deduction is not limited where:

- a light meal is consumed as part of the employee’s employment duties in an area of the business premises that is reserved for senior employees and their guests to use and is not open to all employees working in the premises

- • the expenditure is on light refreshments at a conference or educational course or similar event unless the event is mainly for the purposes of entertainment, or
- • the expenditure is on food or drink consumed at a conference or educational course or similar event lasting at least four consecutive hours (excluding meal times) unless the event is mainly for the purposes of entertainment.

We note that “conference” is defined in the Concise Oxford English Dictionary Tenth Edition as “1. consultation, discussion; 2. a meeting for discussion, esp. a regular one by an association or organisation; ...”.

Furthermore, with respect to the original entertainment rules the IRD considered a conference, educational course or similar event would include a meeting or teleconference.

We remind you of the need for your clients to maintain accurate records. Records should include:

- • the date on which the clients were entertained;
- • the names of the people entertained;
- • the business they represent;
- • the position they hold;
- • the reasons for the entertainment.

Question

Are gifts by real estate agents to their clients 100% deductible? The gifts include alcohol, flowers and chocolates.

Answer

Basically any gift to a client which is in the nature of “entertainment”, such as food and wine, will be subject to the entertainment regime and the deduction will be limited to 50%.

Gifts which are not “entertainment”, eg, flowers, should be 100% deductible under the general permission.

Common entertainment expense items

The following table provides guidance on the treatment of certain entertainment expenditure.

Activity	Deductible		Subject to FBT
	50%	100%	
Taking client (existing or potential) out to lunch or dinner	Yes	No	No
Meals with clients while you are out of town on business	Yes	No	No
Overseas business travel including meals with clients	No	Yes	No
Golf club subscription for a shareholder employee paid by the company	No	No	Yes FBT
Gym membership for a staff member paid by the employer	No	No	Yes FBT
Dinner for a salesperson while out of town on business (no client present)	No	Yes	No
Hire of a launch to entertain clients	Yes	No	No
Parties and other social functions (whether at the office or elsewhere), eg Friday night drinks, staff Christmas parties, reception for existing or potential customers	Yes	No	No
Conferences, educational courses, trade displays	No	Yes	No
Morning and afternoon teas and light meals provided during working hours	No	Yes	No
Non-taxable meal allowances paid to employees working overtime	No	Yes	No
Samples of food and beverages for advertising purposes	No	Yes	No