

November 2015

Rewarding Employees at Christmas is still a taxing time....

There are many ways to reward your employees and knowing the tax implications may help you decide what benefits you give.

Rewards such as paying a bonus, giving gifts or vouchers, or putting on a Christmas function are all treated quite differently for tax purposes.

If you put on a Christmas function for your staff, whether at work or at another venue, you are able to claim 50% as a tax deductible expense. If the Christmas function includes hiring a band or other entertainment, this is also 50% deductible. Transport costs to the function are 100% deductible but subject to FBT (Fringe Benefit Tax).

Gifts or vouchers given to staff are generally 100% income tax deductible. However, there are thresholds for the value of gifts which apply and, when exceeded, FBT will be payable. For example, if the gifts are less than \$300 per quarter per employee and no more than \$22,500 for all employees during the year, then there will be no FBT.

A cash bonus to an employee must be taxed as remuneration and PAYE is payable. So when offering the cash bonus, you need to be specific as to whether the amount is gross or net to avoid misunderstandings. If the bonus is payable at the employers discretion, it is unlikely to be included in the calculation for annual holiday pay. However, if it is linked to productivity, or referred to in the employment contract it will be used for annual holiday pay calculations.

In summary keeping within the gift thresholds will avoid FBT - with a cash bonus, you must deduct PAYE. A gift voucher is 100% tax deductible but generally you cannot claim GST. A physical gift is 100% tax deductible and you can claim the GST.

We advise you to talk with your accountant before making any decisions on rewarding employees, as the rules are complex.

Coral Phillips, Associate at CooperAitken Ltd Accountants, Morrinsville, Matamata and Thames, DDI 07 889 8822 or email coral@cooperaitken.co.nz . www.cooperaitken.co.nz