



**National Tourism Alliance**

## **POLICY POSITION**

### **Deductibility and FBT**

**Position** That all legitimate and verifiable business expenses should be FBT free and made deductible for income tax purposes.

**Rationale and Background** Businesses in Australia can generally claim an immediate deduction for expenses incurred in the everyday running of the business and a deduction over time for most capital expenses.

#### **Deduction of Capital Expenses**

In the case of deductibility over time, there were significant reforms to the area of depreciation upon the introduction of the New Tax System with much of the work on 'safe harbours' being currently reviewed. This review seems to be working effectively and has the support of the tourism industry.

#### **Deduction of Business Expenses**

The self-assessment taxation system in Australia means that businesses are responsible for working out their own tax obligations and paying the correct amount to the Tax Office by the due date. They also have to keep all relevant records to support your tax calculations.

The onus is therefore on the business to determine (and justify) expenses that are legitimately incurred in the operation of their businesses. This is the case in all but a handful of expenses areas. These areas are those in which deductions have been deemed not allowable as they have been regarded as illegitimate business expenses. The tourism industry contends that in some of these cases the blanket non-deductibility eliminates many legitimate deductions for many classes of business and thereby is discriminatory in its application.

The industry contends that it is individual businesses that are best placed to determine which are expenses they have incurred in the operation of their business and which are not. All business expenses should be deductible, subject to the record keeping and business-use obligations that already overlay business deductions.

In particular:

- All legitimate and verifiable business meal expenditure should be deductible for income tax purposes<sup>1</sup>, and;
- All expenses associated with corporate conferences and

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<sup>1</sup> To confirm the legitimacy of a business expense, it is proposed that the reforms are limited to situations where an ABN is exchanged as part of the transaction, including where the business representative is the holder of a company credit card or where a company has a direct account with a restaurant.

events should be deductible for income tax purposes.

### **Fringe Benefits Tax**

Fringe Benefits Tax was introduced in 1986 to bring non-salary benefits, paid by employers, into the income tax system. Regrettably the reforms went further than was warranted, encompassing legitimate business expenses that should properly be considered a cost of doing business rather than a fringe benefit to employees<sup>2</sup>.

The FBT regime imposes the onus for the payment of the tax on the employer, rather than the employee, and assumes that all employees receiving fringe benefits are on the maximum marginal tax rate of 48.5%.

In addition the current system assumes that everything provided to an employee, by an employer, is a benefit and therefore should be subject to be subjected to FBT, unless explicitly excluded.

The tourism and hospitality industry contends that the categorisation of expenditure should properly be undertaken by the employer (or business) and firstly be deemed a legitimate business expense or not (as noted above). If legitimate business costs, expenses should then not be subject to FBT.

Fringe Benefits Tax should apply only to benefits received by employees as part of their remuneration.

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<sup>2</sup> ACCI Policy on Fringe Benefits Tax