# *IT 2200 - Income tax : entertainment allowances : P.A.Y.E. arrangements*

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# TAXATION RULING NO. IT 2200

## INCOME TAX : ENTERTAINMENT ALLOWANCES : P.A.Y.E. ARRANGEMENTS

F.O.I. EMBARGO: May be released

REF H.O. REF: L.85/102-7 DATE OF EFFECT: Immediate

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I 1199491 ENTERTAINMENT
ALLOWANCES
- P.A.Y.E. ARRANGEMENTS

PREAMBLE The tax reform proposals announced by the Treasurer on 19 September 1985 included a Government decision that income tax deductions would no longer be available for expenditure incurred after that date on entertainment expenses.

2. It was indicated that the disallowance of deductions for entertainment would apply across-the-board and would include business meals, drinks, cocktail parties, tickets or boxes at sporting or theatrical events, sightseeing and hostess allowances. It was further indicated that entertainment claimed to be associated with an advertising or promotional purpose would also be disallowed and that the proposal would cover the entertainment expenses of all taxpayers.

3. The question has arisen as to whether tax instalment deductions should now be made by employers from entertainment allowances paid to employees.

4. Existing practice in relation to cash allowances paid to employees is not to require P.A.Y.E. deductions to be made from an allowance if, having regard to the purpose for which the allowance is paid and to the amount of the payment, it could ordinarily be expected that the amount of the allowance would be wholly or mainly offset on assessment by allowable deductions attributable to expenditure of the allowance.

5. The Treasurer's announcement has introduced a new element to be considered. It means that where an allowance is paid to an employee to meet entertainment costs the amount of the allowance will continue to be assessable as income but there will be no entitlement to offset entertainment expenses. In many cases this could be expected to lead to a debit balance payable on annual assessment if the allowance is not subject to P.A.Y.E. deductions.

RULING 6. Pending the enactment of the necessary legislation to give effect to the Treasurer's proposal, this office does not propose to take any enforcement action to require tax

instalments to be deducted from entertainment allowances or other allowances having a substantial entertainment purpose.

7. In the interim, whilst not required to do so, employers may wish to ensure that their employees are not faced with substantial end of year tax liabilities by making P.A.Y.E. deductions from entertainment allowances or other allowances having a mainly entertainment-oriented purpose.

8. Where a mixed purpose allowance is paid in which entertainment is a substantial element, employers and employees may agree to have a proportion of the allowance taken into account for P.A.Y.E. purposes.

COMMISSIONER OF TAXATION
2 October 1985

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