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

[^0]INCOME TAX : ENTERTAINMENT ALLOWANCES : P.A.Y.E. ARRANGEMENTS
F.O.I. EMBARGO: May be released

REF

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

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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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[^0]:    This cover sheet is provided for information only. It does not form part of IT 2200 - Income tax : entertainment allowances : P.A.Y.E. arrangements

    This document has been Withdrawn.
    There is a Withdrawal notice for this document.

