



**PRACTICE
STATEMENT No. 22
(Revised 7/11/2012)**

SUBJECT	FIJI REVENUE & CUSTOMS AUTHORITY: DEDUCTIBILITY OF ENTERTAINMENT EXPENSES
DATE OF ISSUE	21 March 2005 (Draft)
DATE OF EFFECT	Backdated to statutory time limits
CONFIDENTIALITY STATUS	May be released to the public
LEGISLATIVE REFERENCES	<i>Income Tax Act 1974</i> s19, s109
PRACTICE CO-ORDINATOR	National Manager Revenue Collection

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INTRODUCTION

1. This Practice Statement is issued with the authority of the Commissioner of Inland Revenue. It represents the official policy of the Fiji Revenue and Customs Authority on the deductibility of entertainment expenses for income tax purposes. It is mandatory for all FRCA officers to follow this Practice Statement. This Practice Statement may be revised and reissued in the future in accordance with changes to policy, legislation or Court judgements.

LEGISLATIVE BASIS

2. The *Income Tax Act 1974* at Section 19 states:

“In determining total income, no deductions shall be allowed in respect of-

(a) personal and living expenses....

(b) any disbursement or expense not being money wholly and exclusively laid out or expended for the purpose of the trade, profession, business, employment or vocation of the taxpayer; ...”

3. Section 109 of the Act requires proper books of account to be kept sufficient to record all transactions necessary in order to ascertain the profit or gain made.
4. There is no specific reference in the *Income Tax Act* to “entertainment expenses”, so the deductibility of such expenses is governed by Section 19, and they are subject to the record-keeping requirements of Section 109.

RULING ON DEDUCTIBILITY

5. It is recognised that many professional and business people need to entertain clients and suppliers, either existing or prospective, and a wide range of other people they network with in connection with their profession or business. In this aspect the deductibility of entertainment expenses is valid as it is incurred in the derivation of total income.
6. It is also recognised that taxpayers engage in entertainment of a private nature, which is not deductible. Care has to be taken in evaluating claims for expenses of this nature, in case the claim contains a mix of valid entertainment and private entertainment. The experience of overseas tax jurisdictions shows that claims for entertainment expenses have been abused in the past, so much so that some jurisdictions have legislated to deny any deductibility at all for the expense.
7. In view of the above, claims for entertainment expenses will only be allowed where they can be substantiated in accordance with the record-keeping criteria detailed below.

RECORD-KEEPING REQUIREMENTS

Criterion 1: Receipt

8. Claims for entertainment expenses must first be able to be substantiated, either at the assessment stage or the audit stage, by a receipt showing that the money has actually been spent. For example, a restaurant bill must be provided showing at least: the restaurant name, the date, the amount and the fact that the bill has been paid.

9. If the claim cannot meet Criterion 1 it will be disallowed. If the Claim meets Criterion 1 it is next tested under Criterion 2.

Criterion 2: Not personal/wholly business

10. The second criteria is aimed at meeting the tests in Section 19 Paragraphs (a) and (b), to ensure the expense is not private and is wholly and exclusively for business. To succeed against this Criterion the claimant must demonstrate a connection between the expense and the income-generation of the profession or business.
11. The method by which the claimant demonstrates that the expense meets this Criterion is by keeping a record in the prescribed format. The record may be a diary, a log, a schedule, a summary or any or written document as long as it contains the following prescribed data fields:
- (i) the date the entertainment took place;
 - (ii) the place/manner in which it took place;
 - (iii) the names of the persons entertained;
 - (iv) the connection with the profession or trade; and
 - (v) the amount.
12. An example of an acceptable record format is attached to this Practice Statement, partly completed with some examples of types of deductible entertainment.
13. The record-keeping system described above will usually be accepted at face value. Where information leads to the conclusion that it has been falsified, e.g., an entry in the diary described as a business meeting was actually a private one, or did not take place at all, the claimant will be prosecuted for making false statements and claims.
14. At times entertainment is conducted at home. As it is impossible to separate the business and private components of such expense, this cost will not be allowed.
15. Where the entertainment involves the provision of kava, this will only be allowed where it has been provided as part of traditional ceremonies, and only in a non-private context eg formal ceremonies to welcome a guest or farewell an employee of the business.
16. Entertainment of staff by an employer is a valid expense if it used an incentive to reward performance e.g. staff Christmas party, annual sports day or reward for meeting sales targets. However, where such entertainment is an ongoing event (e.g. weekly cocktail irrespective of performance) it is more in the nature of a benefit provided to employees. In such a case a deduction should only be allowed to the employer if the employee has been taxed on the entertainment as a benefit.
17. Where an entertainment expense is allowed as a deduction for income tax it will also be treated as such for VAT purposes, and vice versa.

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SAMPLE RECORD TO SUBSTANTIATE CLAIM FOR ENTERTAINMENT EXPENSE

Date	Place	Persons entertained	Purpose	Amount (\$)
5 May 2005	Company boardroom (TipTop Catering)	Buyers from XYZ Ltd	Prospective buyers of our widgets	200.00
1 June 2005	Golden Wok Resturant, Suva	Watisoni from ABC Supplies Ltd	Discuss contract for raw materials purchase	58.27
12 July 2005	Purchase yaqona and lovo food (traditional ceremony)	Government officials and business leaders	Opening of new premises in Lautoka	1,000.00