

# Meal expenses – Income tax and GST

---

For an expense to be deductible, there must be a nexus between the expenditure and earning income. Expenses that are private or domestic, that you would incur in the normal course of life, are not deductible under the Income Tax Act 2007.

It isn't widely understood that the type of entity you trade under determines Inland Revenue's view on whether expenses are private or business expenses as the differing legal arrangements give rise to significant legal effects. Inland Revenue's statement [IS 21/06](#), covers the income tax and GST treatment of meal expenses incurred by self-employed people. [Inland Revenue guidance for employers on allowances](#) sets out the tax treatment for other businesses.

## Who are the 'Self-employed'?

For income tax and GST purposes, Inland Revenue considers you to be self-employed if you are:

- a sole trader
- a partner in a partnership
- an owner of a look-through company (LTC)

If you're self-employed you usually cannot deduct meal expenses as they are deemed private or domestic expenses. However, an extra expense may be deductible where you are required to work in a remote location or unusual hours. It's not enough to just be 'working away' for the expenditure to be deductible. The circumstances must be such that you have no choice but to incur additional expenses for meals. The cost above normal meal expenses is deductible.

Expenses of a look-through company are treated as expenses of the owners of the company, so the 'normal' rules for companies do not apply and meal expenses are not deductible.

## Companies, closely held companies, and employees

Employers and employees in a company will have their meal expenses treated differently for tax purposes. Employers can treat the expense as a business deduction and the reimbursement or allowance to an employee is tax exempt.

Meal expenses are deductible in a straightforward reimbursement allowance to an employee for out-of-pocket work-related expenses. The amount isn't taxable when:

- employment duties require an employee to work away from their employer's workplace, to travel for work, or perform overtime (the only limit on this, excluding light and liquid refreshments, is the three-month maximum for an employee working away from their employer's workplace)
- where an employer requires an employee to attend a work-related event such as a business meeting, conference, or training course

Self-employed persons incorporating a closely held company may be deemed to be employees to receive the same treatment as any other employee.

Provided the requirements are met:

- the amount will be deductible for employers; and
- employees receiving an allowance or reimbursement for work-related meal expenses can treat the amount they receive as 'tax free' because it is exempt income and not subject to fringe benefit tax.

Shareholder-employees in a company seem to be in an anomalous position, sometimes being treated as self-employed and not entitled to deduct or be reimbursed for their expenses and sometimes being

treated as employees. Their tax treatment is not simple and each situation needs to be assessed carefully.

## **GST**

The GST treatment follows the income tax treatment. If you cannot deduct expenses for income tax purposes, then you cannot deduct the input tax on the expense for GST purposes. Where an income tax deduction is allowable for meal expenses, and you are GST registered, you can deduct the GST input tax.

## **Entertainment expenses**

If you incur meal expenses that are classed as entertainment expenditure, eg a business lunch for yourself and clients, you can deduct 50% of the cost, including the cost of your meal. Inland Revenue rules for entertainment expenses do not distinguish between self-employed, shareholder-employees, companies, or other types of business entities. They focus on the type of entertainment and the connection between the expense and business income. Be alert to where they apply as the rules for them are quite different from those governing meal expenses.

## **Everyday expenses – context is important**

Sometimes it can be surprisingly difficult to work out whether an expense is deductible or not. You need to look at the context.

Bottom line: don't try to claim the lunch-time pie on the go during a normal working day. Coffee is another tricky example. Depending on who is buying the coffee, for whom and where it's drunk, it may or may not be deductible.

## **Keep in mind**

Keep good records to support your expense claims. Keep invoices/receipts, and note the context, such as the purpose of the expense, who was present and their relationship to your business.

Ask us if you're not sure of the deductions allowable for your business or if you would like more detail on deductions for entertainment expenses. Call us if you would like to discuss whether your current business structure is the best fit for the way you operate.