Parliamentary Budget Office

ECR-2025-2491

Small business tax deductibility for business-related meal expenses – 2 years	
Party:	The Coalition

Summary of proposal:

The proposal would provide small businesses with a tax deduction for meal and entertainment expenses that have a connection with business activity and income, including dining and entertainment provided to clients, vendors and employees.

The proposal also provides a Fringe Benefits Tax (FBT) exemption for any meal and entertainment expenses incurred in relation to employees that is claimed as a deduction and would run for 2 years, 2025-26 and 2026-27.

Eligibility for the tax deduction would be limited to small businesses with turnover up to $10 million, with a maximum tax deduction of $20,000 for meal and entertainment expenses (excluding alcohol), for two years.

For businesses to claim the deduction there would need to be a nexus with business activity and income – e.g. dining/entertainment of clients, vendors, employees. The tax deduction is not able to be claimed for expenses that are of a personal/family nature.

The proposal would start on 1 July 2025.

Costing overview

The proposal would be expected to decrease the fiscal and underlying cash balances by around $276 million over the 2025-26 Budget forward estimates period (see Table 1). This impact mainly reflects a reduction in the fringe benefits, company and goods and services tax (GST) revenue, with the reduction in the GST revenue offset by reduced GST payments to the states and territories.

The proposal would not be expected to have an impact beyond the 2025-26 Budget forward estimates period (beyond PDI impacts) given it is for a 2-year period only. Should the concession be for longer, or extended, there would be medium term costs. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2035-36 is provided at Attachment A.

Table 1: Small business tax deductibility for business-related meal expenses – 2 years – Financial implications ($m)[(a)(b)]

	2025-26	2026-27	2027-28	2028-29	**Total to 2028-29**
Fiscal balance	-131.0	-145.0	-	-	**-276.0**
Underlying cash balance	-80.0	-133.0	-63.0	-	**-276.0**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.
- Indicates nil.

Uncertainty

Costings related to payments-in-kind and fringe benefits are particularly challenging, given they require estimates of the size of the affected population and likely take-up rates. For this costing, while the number of businesses currently reporting meal and entertainment expenses for fringe benefits tax (FBT) is known, the number of additional businesses that would purchase meals and entertainment for employees or clients if these expenses were exempt from FBT is unknown.

These kinds of costings are therefore subject to a very large margin of uncertainty which, depending on the specification of the proposal, may be so large to be considered as unquantifiable. In this case, we have quantified the impact of this proposal based on available data and using assumptions and methodology outlined in this minute.

This costing acknowledges that different approaches may generate materially different results (see below). Our discussion of the methodology highlights the significant number of judgements required. Accordingly, costings in this area are of low reliability.

Our approach is based on the available (known) data, via a bottom-up approach, and considers the current context and how this proposal may change activity. Using an alternative top-down approach could yield different results.

According to the most recent ATO data[1], around 15,000 businesses currently report meal and entertainment expenses for the purposes of paying FBT. Around 7,000 of these have turnover below $10 million per year, are subject to income tax and have employees. The remaining 8,000 are larger businesses, charities or other entities not subject to income tax.

There are 4 million 'businesses' in Australia lodging tax returns (including companies, unincorporated 'sole traders', partnerships, trusts and charities). Many of these 4 million entities are not operating businesses but are small investment vehicles. Around 700,000 of the 4 million businesses have employees.

For this costing we have initially limited our analysis to employing businesses with turnover below $10 million. The analysis draws on information from the businesses in this group that currently report meal and entertainment expenses on their FBT return. (Note the costing is not limited to assessing the impact of expenses for this group.)

The relatively low proportion of businesses that report meal and entertainment expenses for the purposes of FBT may reflect a number of factors, including:

- In 2021-22 almost 95% of businesses with turnover below $10 million also have turnover below $1 million, and around half have turnover below $200,000.
- For businesses with turnover below $1 million, the median yearly total wage expense was $29,000, reflecting part-time or occasional employees.
- For businesses with turnover below $1 million, only 16% (120,000) made a profit of more than $50,000.

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[1] *Taxation statistics 2021-22*

- Many of these small businesses would be already utilising the FBT Minor Benefits Exemption[2] for meal and entertainment expenses, where irregular payments for meals and entertainment, each of value up to $300, may be exempt from FBT depending on the circumstances.
- A significant degree of non-reporting in this area. Non-compliance may be inadvertent, reflecting a lack of awareness and the complexity of the FBT system, or deliberate. For such businesses, this proposal would make lawful certain business behaviour that is already occurring.

The small number of businesses reporting FBT and the circumstances of potential additional businesses mean that many of these are not in a financial position to spend significant additional amounts on meals and entertainment for their staff and clients beyond the amount they are spending already. Our approach therefore assumes that there are practical financial limits to the take-up of this proposal.

All of our assumptions, described below, reflect broad allowances rather than precise analysis. Accordingly, there is a very large uncertainty in estimating the number of businesses affected by this proposal. The financial implications of the costing include impacts to the FBT, company and individuals income tax, GST and payments to the states and territories.

In addition, because the measure is costed for a 2-year exemption from FBT only (as specified in the announced policy) and given an assumed ramp up in the use of the exemption, a fully mature cost of the policy is not costed. The costing would be significantly higher each year if the change were permanent.

Methodology

FBT

The FBT revenue forgone was calculated by identifying those employers already providing meal and entertainment benefits and paying FBT, and allowing for benefits up to the threshold now becoming exempt. Around $110 million of FBT would be foregone in 2025-26, increasing in 2026-27 with general growth in the economy.

Company and individuals' income tax

Taxation of business income may occur through company tax if the business is incorporated, or personal income tax if the business is unincorporated. The change in business income tax revenue due to this proposal has 2 impacts. First, employers would no longer deduct the FBT payable from their taxable income due to the exemption, resulting in higher taxable income and thus more income tax.

Second, new entrants/employers would have increased expenses which reduce their taxable income and thus pay less income tax.

For the first impact, the $110 million of foregone FBT would no longer be deductible for income tax, increasing tax revenue by around $25 million on assessment the following year, grown out into the future with general growth in the economy.

The second impact is more complex. The costing considers that of the approximately 160,000 businesses likely to be able to take advantage of the proposal (the 120,000 mentioned earlier plus half of those with turnover between $1 million and $10 million), only half have sufficient employee costs to justify an increase in spending on meals and entertainment. Of the remaining 80,000 businesses,

[2] *ATO website, Minor benefits exemption*

we assume that half are either already utilising the minor benefits exemptions to the extent they can afford or in some cases are non-compliant with the FBT system.

This leaves around 40,000 businesses as our assumption for the number affected, which is nearly a 500% increase on the 7,000 businesses in this income bracket currently reporting through the FBT system.

We have also factored in the amount of the concession that eligible businesses are likely to take up. Being captured in the FBT reporting system brings with it a compliance burden that may create a significant disincentive to small businesses with limited financial resources to risk inadvertently breaching the threshold. Accordingly, we assume that businesses are unlikely to take up the full amount of $20,000. Similarly, businesses with turnover close to the $10 million threshold are likely to be cautious in their use of this tax concession.

We assume that the average amount claimed is around $12,000, being the average amount (up to $20,000) currently reported for FBT purposes ($8,000), uplifted by 50% to allow for additional spending by non-employing businesses. This reflects a mix of businesses able to utilize close to the full amount and others with the means to only utilize a small part.

Our assumed total deduction to business income is therefore around $480 million, with an uncertainty of at least a factor of 2 in either direction.

The appropriate tax rate to apply to this amount reflects that some of these businesses would be subject to the corporate tax rate of 25% while unincorporated businesses would be subject to personal income tax marginal rates and thresholds. The decrease in corporate tax would be partially offset by reduced franking credits, noting that most of these businesses are unlikely to be distributing many dividends overseas. Applying an average tax rate of around 23% results in an impact on income tax of around $110 million, growing into the future with general economy.

While the reduction from the exemption to FBT is immediate, the impact on business income tax is unlikely to achieve full take-up on a 2-year policy, as small businesses may be slow to become aware of the change or cautious in taking it up.

The 2-year specification of this policy is a further source of uncertainty, operating for only 2 years, would likely see take up rates at around two-thirds of the rate of a permanent ongoing policy and thus not reach full maturity. Some businesses may opt to only partly take up the concession or not partake at all, knowing that it would not be permanently available, concerned that providing these benefits may become an expectation. We have assumed that the fiscal impact would be reduced by one third of an equivalent ongoing policy to account for this.

GST

The loss in GST revenue was estimated as 10% of the taxable value of new entrants/employers providing meal and entertainment benefits. The decrease in GST revenue has a corresponding decrease in payments to the states and territories (shown as Treasury Payments in the tables in Attachment A).

Financial implications of this costing were rounded consistent with the PBO's rounding rules[3].

[3] https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules

Key assumptions

The PBO has made the following assumptions in costing this proposal.

- The number of taxable employers would grow by the rate of corporate gross operating surplus.
- Around 7,000 employers currently lodging an FBT return would take up the FBT exemption.
  - Fringe benefit expenses of less than $300 per benefit are already exempt from FBT though the Minor Benefits Exemption. A substantial portion of businesses with turnover under $10 million providing fringe benefits would fall into this category.
- Around 40,000 employers would claim a deduction for meal and entertainment expenses.
  - This is 7,000 currently in the FBT system and an additional 33,000 new businesses purchasing meal and entertainment services that were not previously disclosing on their FBT return.
  - Of the 33,000 businesses, they will increasingly utilise the policy over the two years.
- The policy would not reach full maturity as it is temporary, and businesses would be reluctant to set an expectation with employees of providing meals and entertainment on a temporary policy.
- The average deduction would be around $12,000, consistent with the observed average amount below $20,000 currently reported for FBT purposes ($8,000), uplifted by 50% to allow for additional spending by businesses not captured by the 40,000 employing businesses.
- Additional business deductions associated with the proposal are for expenses that have a connection with business activity and income, consistent with the specification.
- This analysis has not assumed any additional departmental costs would be incurred given the ATO is funded to maintain and update lodgement forms (including digital offerings). With meal and entertainment expenses exempt from FBT, we assume that the ATO would be able to redeploy these compliance resources. If that were not the case, there would be further additional departmental costs associated with this commitment.

Financial implications were rounded consistent with the PBO's rounding rules.[4]

Data sources

Commonwealth of Australia (2025) *Pre-election Economic and Fiscal Outlook 2025,* Commonwealth of Australia.

Australian Taxation Office provided 2022-23 FBT return year data for selected items by industry and taxable status.

Australian Taxation Office provided 2021-22 tax return data for companies, partnerships, trusts and individuals.

Australian Taxation Office (2023) *Minor benefits exemption*, Australian Taxation Office website, accessed 7 May 2025.

Australian Taxation Office (2024) *Taxation statistics 2021-22*, Australian Taxation Office website, accessed 7 May 2025.

Liberal (2025) *OUR PLAN FOR A SUSTAINABLE BUDGET*, Liberal party website, accessed 6 May 2025.

Attachment A – Small business tax deductibility for business-related meal expenses – 2 years – Financial implications

Table A1: Small business tax deductibility for business-related meal expenses – 2 years – Fiscal balances ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	**Total to 2028-29**	**Total to 2035-36**
Revenue													
ATO Revenue	*-131.0*	*-145.0*	-	-	-	-	-	-	-	-	-	***-276.0***	***-276.0***
ATO Revenue (GST Collections)	*-10.9*	*-11.2*	-	-	-	-	-	-	-	-	-	***-22.1***	***-22.1***
Treasury Payments (GST Payments)	*10.9*	*11.2*	-	-	-	-	-	-	-	-	-	***22.1***	***22.1***
Total – revenue	**-131.0**	**-145.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-276.0**	**-276.0**
Total (excluding PDI)	**-131.0**	**-145.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-276.0**	**-276.0**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

\- Indicates nil.

Table A2: Small business tax deductibility for business-related meal expenses – 2 years – Underlying cash balances ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	**Total to 2028-29**	**Total to 2035-36**
Revenue													
ATO Revenue	*-80.0*	*-133.0*	*-63.0*	-	-	-	-	-	-	-	-	***-276.0***	***-276.0***
ATO Revenue (GST Collections)	*-10.0*	*-11.1*	*-0.9*	-	-	-	-	-	-	-	-	***-22.0***	***-22.0***
Treasury Payments (GST Payments)	*10.0*	*11.1*	*0.9*	-	-	-	-	-	-	-	-	***22.0***	***22.0***
Total – revenue	**-80.0**	**-133.0**	**-63.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-276.0**	**-276.0**
Total (excluding PDI)	**-80.0**	**-133.0**	**-63.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-276.0**	**-276.0**

(a) A positive number for the Underlying cash balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the Underlying cash balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

\- Indicates nil.

Table A2: Small business tax deductibility for business-related meal expenses – 2 years – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	**Total to 2028-29**	**Total to 2035-36**
Fiscal balance	*-1.8*	*-6.6*	*-11.2*	*-13.1*	*-13.6*	*-14.3*	*-14.9*	*-15.6*	*-16.3*	*-17.0*	*-17.9*	***-32.7***	***-142.3***
Underlying cash balance	*-1.3*	*-5.4*	*-10.0*	*-12.6*	*-13.5*	*-14.1*	*-14.7*	*-15.4*	*-16.1*	*-16.8*	*-17.6*	***-29.3***	***-137.5***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[5].

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

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[5] Online budget glossary – Parliamentary Budget Office (pbo.gov.au)