



Senator the Hon Katy Gallagher

Minister for Finance
Minister for Women
Minister for the Public Service
Senator for the Australian Capital Territory

MS25-000295

Senator the Hon Sue Lines
President of the Senate
Parliament House
CANBERRA ACT 2600

Dear President

ORDER FOR THE PRODUCTION OF DOCUMENTS 751

Please find enclosed a letter from the Hon Jim Chalmers MP, Treasurer, in response to the Senate Order for the Production of Documents No. 751.

Yours sincerely

A handwritten signature in blue ink that reads "Katy Gallagher".

Katy Gallagher

20 February 2025



THE HON JIM CHALMERS MP
TREASURER

Ref: MS25-000295
Thursday, 20 February 2025

Senator the Hon Katy Gallagher
Minister for Finance
Parliament House
CANBERRA ACT 2600

Dear Minister

I write in relation to Order for Production of Documents 751.

Documents falling within the scope of the Order are attached. Some information has been redacted where it falls outside the scope of the order and to remove personal information (names of employees below SES level and contact details).

I would appreciate you conveying this to the President of the Senate.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'J. Chalmers', with a long horizontal flourish extending to the right.

The Hon Jim Chalmers MP

Enc

From: [REDACTED]
Sent: Wednesday, 29 January 2025 12:47 PM
To: Kennedy, Darren
Subject: Request for information[~~SEC - PROTECTED, CAVEAT - SH: CABINET~~]

~~PROTECTED//CABINET~~

Hi Darren

Grateful if you could please assist with a policy costing.

Please cost a proposal with the following elements:

1. Allow small businesses to deduct up to \$20,000 per year for meal and entertainment expenses, excluding alcohol.

- The scope of meal and entertainment expenses is per current ATO interpretation.
- There is no requirement for FBT to apply before these expenses can be deducted.
- Small businesses are those with an aggregated turnover of less than \$10 million.

2. Any meal and entertainment fringe benefits provided to employees under element 1 above, including their families and associates, by an employer will be exempt from Fringe Benefits Tax.

3. In addition, cost the following variations:

- Sensitivity analysis based on different take up rates and claim rates.
- Meal and entertainment eligible expenses are limited to the meal component.
- Businesses with employees are eligible.

Could you please get back to me by Friday morning? Let me know if any issues.

Thank you

[REDACTED]

~~PROTECTED//CABINET~~

From: Kennedy, Darren
Sent: Saturday, 1 February 2025 11:59 AM
To: Kennedy, Steven
Cc: Brown, Diane; Office of the Secretary; Cai, Yiyong
Subject: Fw: costing request[~~SEC - PROTECTED~~]
Attachments: 250131 - Meal and entertainment expenses - costing note (draft).docx

~~PROTECTED~~

FYI

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~~PROTECTED~~

From: Cai, Yiyong [REDACTED]@treasury.gov.au>
Sent: Saturday, February 1, 2025 11:46 am
To: [REDACTED]@TREASURY.GOV.AU>
Cc: Brown, Diane [REDACTED]@TREASURY.GOV.AU>; Kennedy, Darren [REDACTED]@treasury.gov.au>; [REDACTED]@TREASURY.GOV.AU>; Maher, Richard [REDACTED]@TREASURY.GOV.AU>
Subject: Re: costing request[~~SEC - PROTECTED~~]

~~PROTECTED~~

Hi [REDACTED]

You requested a costing on a proposal to allow small businesses (with turnover under \$10 million) to deduct up to \$20,000 per year for meal and entertainment expenses, excluding alcohol.

We have costed this proposal at \$500 million per annum for meal expenses only, and at \$1.6 billion per annum for all entertainment expenses.

- Please note that there is limited data available, and therefore this costing is of low reliability.

While all 4 million small businesses are eligible to benefit from the proposals, only 2.6 million small businesses are actively trading. Our costings therefore imply:

- An average \$750 deduction per annum for each actively trading business if only meal expenses are deductible.
- An average \$2,500 deduction per annum for each actively trading business if all entertainment expenses are deductible.

Note there will be a wide variation in deductions for individual businesses around these averages.

This costing is based on a top-down approach, using macroeconomic data from Aus and the US. We assume:

- Business spending on meals is 0.3% of GDP (around \$8 billion), based on US data. Half of this spending (around \$4 billion) is attributed to small businesses, based on their share of payments to employees in Aus tax stats. While the data is less reliable, we have assumed entertainment expenses are 1% of GDP.

- As result of the benchmarking to the US, **our costing is limited to legitimate business expenses** and has made no provision for substitution of private expenditure. We have not made any further allowance for greater spending in Australia above the United States, although this proposal is more generous than arrangements in the United States (which only allow for a 50% deduction, rather than 100% up to \$20,000).
 - The costing can be scaled to pick up any additional behavioural response.
 - For example, if we assume businesses spend 0.4% of GDP on food, equivalent to a 30% additional take-up. This would cost \$650 million per annum for meal expenses only proposal. A similar 30% additional take-up for all entertainment (i.e. 1.3% of GDP) would increase the cost to \$2 billion per annum.
 - Alternatively, if we assume businesses spend 0.45% of GDP on food, equivalent to a 50% additional take-up. This would cost \$750 million per annum for the meal expenses only proposal. A similar 50% additional take-up for all entertainment (i.e. 1.5% of GDP) would increase the cost to \$2.4 billion per annum.

This top-down approach is consistent with Treasury's previous costings for other business tax measures (e.g. the small business energy incentive) where data availability is limited.

There are significant risks that the cost could be higher or lower.

- Upside risks include an increased behavioural response and/or non-compliance from spending that does not meet the requirement of being business-related. If all the 4 million small businesses fully utilise the deduction to the \$20,000 cap, then the cost of either proposal can easily exceed \$10 billion per annum.
- Downside risks include that this proposal may just legalise existing (unlawful) deductions that may currently be claimed.
- Balancing the upside and downside risks, it remains our central estimate to assume businesses spend 0.3% of GDP on meals, and 1% of GDP on all entertainment.
- Because our costings are limited to legitimate business expenditures, the actual cost of the proposals could be significantly larger if the take-up of the policy or the average claim for deduction per business is substantially higher than what we have estimated as it is difficult to police in practice.

Please note that our costing has incorporated the impact on FBT and GST. In particular, the allowance of deduction will give rise to GST input tax credit, which would reduce GST payments to the states and territories by \$169 million per annum for the meals only proposal, and \$552 million per annum for the all entertainment expenses proposal. However, this GST component of the costing would not have an impact on UCB for the Commonwealth.

	Meals only	All entertainment
Reduction in income tax	-\$464 million	-\$1,517 million
Reduction in fringe benefits tax (net of deductibility)	-\$24.3 million	-\$78.3 million
Reduction in GST	-\$169 million	-\$552 million
Receipts impact	-\$657.3 million	-\$2,130 million
GST payments	+\$169 million	+\$552 million
UCB impact	-\$488.3 million	-\$1,595.3 million as

	Meals only	All entertainment
Income Tax benefit to business	\$464 million	\$1,517 million

Number of actively trading businesses (<\$10m turnover)	2.6 million	2.6 million
Average income tax benefit per business	\$178	\$580
Average deduction per business	\$750	\$2,500
% of the \$20,000 cap	<4%	12.5%

Regards, YY

Yiyong Cai (蔡奕勇) – he/him/他 | Assistant Secretary
Business and Superannuation Tax Analysis Branch
Tax Analysis Division

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Policy

To provide a deduction for business-entertainment expenses for businesses with an annual turnover of up to \$10 million. The deduction would be capped at \$20,000 per year per business and no FBT would be applicable. This deduction would apply for expenditure incurred from 1 July 2025 to 30 June 2027. Public sector entities would not be eligible.

Eligible expenditure would include all business entertainment provided to employees or business associates (including suppliers and customers, and potential suppliers and potential customers). Expenditure by a business owner on their own expenses would not be eligible. Expenditure made under salary sacrifice arrangements would not be eligible. A second option would restrict this just to meal entertainment.

Current treatment

Business entertainment expenses are generally not deductible by businesses, unless it is a fringe benefit, in which case FBT applies and businesses can then claim an income tax deduction and GST input credits.

Summary

	Meals only	All entertainment
Reduction in income tax	-\$464 million	-\$1,517 million
Reduction in fringe benefits tax (net of deductibility)	-\$24.3 million	-\$78.3 million
Reduction in GST	-\$169 million	-\$552 million
Receipts impact	-\$657.3 million	-\$2,130 million
GST payments	+\$169 million	+\$552 million
UCB impact	-\$488.3 million	-\$1,595.3 million

Average per small business

	Meals only	All entertainment	Evidence
Income Tax benefit to business	\$464 million	\$1,517 million	
Number of actively trading businesses (<\$10m turnover)	2.6 million	2.6 million	ABS Business Counts
Average income tax benefit per business	\$178	\$580	
Average deduction per business	\$750	\$2,500	
% of the \$20,000 cap	<4%	12.5%	

Table: annual estimates of financial impact – Income Tax (a top-down approach)

	Meals only	All entertainment	Evidence
Aus GDP	\$2.7 trillion	\$2.7 trillion	ABS data
Business spending as share of GDP	0.3%	1.0%	International: US business spent US\$60 bil on food in 2017, which is 0.3% of GDP under a tax regime without FBT but only allowing 50% deduction. Domestic: Inclusive of FBT, large businesses spent around \$900 mil on meals, which is roughly 0.4% of their reported payments to employees (\$260 bil) based on 2020-21 tax stats. Compensation of Employees is roughly 55% of GDP. Applying the share for large businesses to the whole economy, we have business spending on food at 0.22% of GDP and rounded it up to 0.3% to account for behavioural response after removal of FBT and provision of full deduction.
business spending	\$8.2 billion	\$27.0 billion	GDP times % share
% attributed to small businesses (turnover <\$10m)	50%	50%	Domestic: small businesses (turnover <\$10m) account for 48% employment and 44% of gross payments to employees according to 2020-21 tax stats.
Small business spending	\$4.1 billion	\$13.5 billion	
Proportion of small businesses in a taxable position	60%	60%	Based to ATO advice
Small business spending (taxable)	\$2.5 billion	\$8.1 billion	
Proportion of small business spending below \$20,000	75%	75%	Domestic: existing FBT returns show around 25% of total spending by small businesses is above the \$20,000 cap per business
Small business spending in scope	\$1.9 billion	\$6.1 billion	
Company tax rate (indicative)	25%	25%	
Reduction in income tax	-\$464 million	-\$1.5 billion	International: a 2009 US study suggested narrowing deductions for entertainment to 'promotional activity' (intuitively, excluding employee entertainment) can raise revenue by US\$4-5 billion, which is 0.03% of US GDP. And 0.03% of AUS GDP would be \$800 million.

FBT impacts

In addition, existing expenditure currently being charged GST would become FBT exempt. We have used 2020 FBT microdata and adjusted for 2023 aggregate outcomes.

Table: annual estimates of financial impact – Fringe Benefits Tax

	Meals only	All entertainment	Evidence
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Small business FBT expenditure (<\$20k)	-\$32.3 million	-\$104.3 million	ATO Taxation Statistics
Tax value of deduction no longer allowed for FBT	+\$8.1 million	+\$26.1 million	
Net impact	-\$24.3 million	-\$78.3 million	

GST impacts

In addition, we assume that expenditure under this new deduction would be eligible for an input tax credit. The impact on the federal UCB would be unchanged, but there would be fewer GST receipts and fewer GST payments to the States and Territories

Table: annual estimates of financial impact – Goods and Services Tax

	Meals only	All entertainment	Evidence
Small business spending in scope	\$1.9 billion	\$6.1 billion	
GST tax rate (1/11 th)	9%	9%	
Reduction in GST	\$169 million	\$552 million	

[REDACTED]



Friday

Friday 11:09 am

[REDACTED] confirming what we need to give you today:

[REDACTED]

- an indicative costing on business meal and entertainment expenses (we have landed on an approach for this)

[REDACTED]

Please let me know if this isn't right or if there is anything else. Darren

Friday 12:01 pm

Type a message



From: Kennedy, Darren
Sent: Friday, 31 January 2025 9:48 AM
To: [REDACTED] Cai, Yiyong
Subject: RE: Business deductions [SEC=OFFICIAL]

OFFICIAL

Sounds good, thanks!

OFFICIAL

From: [REDACTED]@TREASURY.GOV.AU>
Sent: Friday, 31 January 2025 9:46 AM
To: Kennedy, Darren [REDACTED]@treasury.gov.au>; Cai, Yiyong [REDACTED]@treasury.gov.au>
Subject: RE: Business deductions [SEC=OFFICIAL]

OFFICIAL

I'm trying to find the NZ data, but can't find anything online. I am going to reach out to one of the NZ contacts to see if they can help me navigate their public data.

[REDACTED]
Tax Analysis Division | Revenue Group
The Treasury, Langton Crescent, Parkes ACT 2600
[REDACTED]@treasury.gov.au



Australian Government
The Treasury

OFFICIAL

From: Kennedy, Darren [REDACTED]@treasury.gov.au>
Sent: Friday, 31 January 2025 9:21 AM
To: Cai, Yiyong [REDACTED]@treasury.gov.au>; [REDACTED]@TREASURY.GOV.AU>
Subject: RE: Business deductions [SEC=OFFICIAL]

OFFICIAL

Thanks YY. Is there any overseas data on expenditure on meals and entertainment as a share of turnover or employee compensation? I think this approach could work but we would want something to benchmark it to.

OFFICIAL

From: Cai, Yiyong [REDACTED]@treasury.gov.au>
Sent: Friday, 31 January 2025 8:58 AM
To: [REDACTED]@TREASURY.GOV.AU>; Kennedy, Darren [REDACTED]@treasury.gov.au>
Subject: RE: Business deductions [SEC=OFFICIAL]

OFFICIAL

Thanks both – I have been thinking about something simpler. We have data for expense on meals (\$900m-ish) and payments to employees (a bit over \$250b) by those >10m, which is around 0.4% We can round it up to 1% to account for other entertainment and even large to include clients and behavioural response (e.g. 3% that we assumed for training as a benchmark).

If we apply the same ratio, say 3%, to the \$200b payments to employees by those <10m then we will have \$2b of expense. Multiplying by 25% tax rate and 60% taxable will get us close to \$1b.

And this could be a lower bound because we haven't included businesses that do not have employees and would use the policy to spend on clients.

Regards, YY

Yiyong Cai (蔡奕勇) – he/him/他 | Assistant Secretary
Business and Superannuation Tax Analysis Branch
Tax Analysis Division

[REDACTED]



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From: Kennedy, Darren
Sent: Friday, 31 January 2025 9:49 AM
To: Cai, Yiyong; [REDACTED]
Subject: RE: Business deductions [SEC=OFFICIAL]

OFFICIAL

Thanks YY. I assume these are deductible costs and there is no FBT in the US? ie. Is the tax regime similar to what's being proposed?

OFFICIAL

From: Cai, Yiyong [REDACTED]@treasury.gov.au>
Sent: Friday, 31 January 2025 9:47 AM
To: [REDACTED]@TREASURY.GOV.AU>; Kennedy, Darren [REDACTED]@treasury.gov.au>
Subject: RE: Business deductions [SEC=OFFICIAL]

OFFICIAL

Found this article that says the US spent \$60b on business meals which is roughly 0.3% of GDP in 2017 (or 0.6% of COE). So I think they are quite consistent with Aus data and my back of the envelope calcs.

Study reveals trends...~<https://www.nrn.com/restaurant-segments/study-reveals-trends-in-business-meal-expense-management>

Regards, YY

Yiyong Cai (蔡奕勇) – he/him/他 | Assistant Secretary
Business and Superannuation Tax Analysis Branch
Tax Analysis Division
[REDACTED]



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From: Cai, Yiyong
Sent: Friday, 31 January 2025 9:09 AM

To: [REDACTED]@TREASURY.GOV.AU>; Kennedy, Darren [REDACTED]@treasury.gov.au>
Subject: RE: Business deductions [SEC=OFFICIAL]

In case it is useful, the US spends roughly \$200b on customer engagement which is roughly 1% of their GDP circa 2017 according to the following source:

Make Room in Your Budget ~<https://www.linkedin.com/pulse/20140707155007-27855475-make-room-in-your-budget-for-customer-engagement>

1% of GDP is roughly 2% of COE assuming a 50% labour share.

Regards, YY

Yiyong Cai (蔡奕勇) – he/him/他 | Assistant Secretary
Business and Superannuation Tax Analysis Branch
Tax Analysis Division
[REDACTED]



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From: Cai, Yiyong
Sent: Friday, 31 January 2025 8:55 AM
To: [REDACTED]@TREASURY.GOV.AU>; Kennedy, Darren [REDACTED]@treasury.gov.au>
Subject: RE: Business deductions [SEC=OFFICIAL]

Thanks both – I have been thinking about something simpler. We have data for expense on meals (\$900m-ish) and payments to employees (a bit over \$250b) by those >10m, which is around 0.4% We can round it up to 1% to account for other entertainment and even large to include clients and behavioural response (e.g. 3% that we assumed for training as a benchmark).

If we apply the same ratio, say 3%, to the \$200b payments to employees by those <10m then we will have \$2b of expense. Multiplying by 25% tax rate and 60% taxable will get us close to \$1b.

Regards, YY

Yiyong Cai (蔡奕勇) – he/him/他 | Assistant Secretary
Business and Superannuation Tax Analysis Branch
Tax Analysis Division
[REDACTED]



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From: Kennedy, Darren
Sent: Friday, 31 January 2025 9:55 AM
To: Cai, Yiyong; [REDACTED]
Subject: RE: Business deductions [SEC=OFFICIAL]

OFFICIAL

So that should be seen as a lower bound then I assume

OFFICIAL

From: Cai, Yiyong [REDACTED]@treasury.gov.au>
Sent: Friday, 31 January 2025 9:53 AM
To: Kennedy, Darren [REDACTED]@treasury.gov.au>; [REDACTED]@TREASURY.GOV.AU>
Subject: RE: Business deductions [SEC=OFFICIAL]

OFFICIAL

And food and entertainment is mostly 50% tax deductible in the US, with no FBT – but only 50% is deductible.

[How to Calculate Mea...~https://pro.bloombergtax.com/insights/corporate-tax-planning/how-to-calculate-meals-and-entertainment-expense-deductions/](https://pro.bloombergtax.com/insights/corporate-tax-planning/how-to-calculate-meals-and-entertainment-expense-deductions/)

Regards, YY

Yiyong Cai (蔡奕勇) – he/him/他 | Assistant Secretary
Business and Superannuation Tax Analysis Branch
Tax Analysis Division
[REDACTED]



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From: Kennedy, Darren [REDACTED]@treasury.gov.au>
Sent: Friday, 31 January 2025 9:51 AM
To: Cai, Yiyong [REDACTED]@treasury.gov.au>; [REDACTED]@TREASURY.GOV.AU>
Subject: RE: Business deductions [SEC=OFFICIAL]

OFFICIAL

Useful benchmarking, thanks! Worth sharing this with John Clark when you speak with him.

OFFICIAL

From: Cai, Yiyong [REDACTED]@treasury.gov.au>
Sent: Friday, 31 January 2025 9:47 AM
To: [REDACTED]@TREASURY.GOV.AU>; Kennedy, Darren [REDACTED]@treasury.gov.au>
Subject: RE: Business deductions [SEC=OFFICIAL]

OFFICIAL

Found this article that says the US spent \$60b on business meals which is roughly 0.3% of GDP in 2017 (or 0.6% of COE). So I think they are quite consistent with Aus data and my back of the envelope calcs.

Study reveals trends...~<https://www.nrn.com/restaurant-segments/study-reveals-trends-in-business-meal-expense-management>

Regards, YY

Yiyong Cai (蔡奕勇) – he/him/他 | Assistant Secretary
Business and Superannuation Tax Analysis Branch
Tax Analysis Division
[REDACTED]



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LGBTIQ+ Ally

OFFICIAL

From: Cai, Yiyong
Sent: Friday, 31 January 2025 9:09 AM
To: [REDACTED]@TREASURY.GOV.AU>; Kennedy, Darren [REDACTED]@treasury.gov.au>
Subject: RE: Business deductions [SEC=OFFICIAL]

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Make Room in Your Bu...~<https://www.linkedin.com/pulse/20140707155007:27855475:make-room-in-your-budget-for-customer-engagement>

1% of GDP is roughly 2% of COE assuming a 50% labour share.

Regards, YY

Yiyong Cai (蔡奕勇) – he/him/他 | Assistant Secretary
Business and Superannuation Tax Analysis Branch
Tax Analysis Division

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From: Cai, Yiyong
Sent: Friday, 31 January 2025 8:55 AM
To: [REDACTED] <@TREASURY.GOV.AU>; Kennedy, Darren [REDACTED] <@treasury.gov.au>
Subject: RE: Business deductions [SEC=OFFICIAL]

Thanks both – I have been thinking about something simpler. We have data for expense on meals (\$900m-ish) and payments to employees (a bit over \$250b) by those >10m, which is around 0.4% We can round it up to 1% to account for other entertainment and even large to include clients and behavioural response (e.g. 3% that we assumed for training as a benchmark).

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Regards, YY

Yiyong Cai (蔡奕勇) – he/him/他 | Assistant Secretary
Business and Superannuation Tax Analysis Branch
Tax Analysis Division

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From: Kennedy, Darren
Sent: Friday, 31 January 2025 3:01 PM
To: [REDACTED] Cai, Yiyong
Subject: RE: [SEC=OFFICIAL]

OFFICIAL

Thoughts from Julia Neville re: our approach

- Our approach sounds reasonable given where we are at
- The proposed tax arrangement here is more generous than the US, and noting small business have murky business/personal boundaries already, [REDACTED]
- If we look at benchmarks, maybe take the higher end of the range to allow for some non compliance (noting this won't be zero) without expressly trying to quantify this
- May be an offset because some small business probably doing the wrong thing and already claiming for food without FBT

Confirming also Diane has given Claudia guidance on cost of this of \$500m-\$750m from our chat this morning.

Darren

OFFICIAL

From: Kennedy, Darren
Sent: Friday, 31 January 2025 2:17 PM
To: [REDACTED]@TREASURY.GOV.AU>; Cai, Yiyong [REDACTED]@treasury.gov.au>
Subject:

Chatting to [REDACTED] and Diane

We need to provide a formal costing today on entertainment expense measure. We should frame our email similar to how set out below.

Also [REDACTED] asked what the claim rate for meal expenses was in New Zealand – can we find that out?

Also, we should test this with the ATO to make sure they can broadly support our approach. Have you done that – if not can someone please call them and test?

We need to clear this through Diane before sending up.

Darren

You requested a costing on XX

We have costed this at \$XX per

This assumes...

- Eg Legitimate business expense and no substitution of private expenditure
- Similar claim rates to other jurisdictions etc

Assumed to effect XX businesses, average benefit of \$xx per annum

This is a consistent approach used to cost other business tax measures – look at evidence regarding claim rates as a share of turnover.

Cost could be higher or lower depending

[additional info on approach]

Darren Kennedy — Assistant Secretary
Indirect Tax and Tax System Analysis
Tax Analysis Division



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From: Brown, Diane
Sent: Friday, 31 January 2025 6:28 PM
To: Cai, Yiyong
Cc: Kennedy, Darren; [REDACTED] Maher, Richard
Subject: RE: Request for information[SEC-PROTECTED, CAVEAT EM CABINET]

~~PROTECTED//CABINET~~

Thanks Yiyong. Understand Darren is making some tweaks but something like this looks good and happy for Darren to settle with you.

You may want to consider explaining in a bit more detail, why half of meals spending is attributed to small business; and making clear that within the average tax benefit, there could be great variability.

~~PROTECTED//CABINET~~

From: Cai, Yiyong [REDACTED]@treasury.gov.au>
Sent: Friday, 31 January 2025 6:07 PM
To: Brown, Diane [REDACTED]@TREASURY.GOV.AU>
Cc: Kennedy, Darren [REDACTED]@treasury.gov.au>; [REDACTED]@TREASURY.GOV.AU>; Maher, Richard [REDACTED]@TREASURY.GOV.AU>
Subject: FW: Request for information[SEC-PROTECTED, CAVEAT EM CABINET]

~~PROTECTED//CABINET~~

Hi Diane – we have drafted the following email to [REDACTED] for her costing request. Could you please let us know if you have any comments?

Hi XXX,

You requested a costing on a proposal to allow small businesses (with turnover under \$10 million) to deduct up to \$20,000 per year for meal and entertainment expenses, excluding alcohol.

We have costed this at \$500 million per annum for meal expenses only, and at \$1.6 million per annum for all entertainment expenses.

- Please note that there is limited data available, and therefore this costing is of low reliability.

This costing is based on a top-down approach, using macroeconomic data from Aus and the US. We assume:

- Business spending on meals is 0.3% of GDP (around \$8 billion), based on US data. Half of this spending (around \$4 billion) is attributed to small businesses, based on Aus tax stats.
 - o As we don't have data to reliably cost all entertainment expenses, including and excluding alcohol, we have assumed entertainment expenses are 1% of GDP.
- As result of the benchmarking to the US, our costing is limited to legitimate business expenses and has made no provision for substitution of private expenditure. We have not made any further allowance for greater spending in Australia, although this proposal is more generous than arrangements in the United States.
 - o The costing can be scaled to pick up additional behavioural response.

All 4 million small businesses are eligible to benefit from the proposals, but there are only 2.6 million small businesses actively trading. Our costings therefore imply:

- An average tax benefit of around \$250 (or around \$750 in eligible expenditure) per annum for each actively trading business if only meal expenses are deductible
- An average benefit of \$around \$750 (or around \$2,500 deduction) per annum for each actively business if all entertainment expenses are deductible.

This top-down approach is consistent with Treasury's previous costings for other business tax measures where data availability is limited.

There are significant risks that the cost could be higher or lower.

- Upside risks include increased behavioural effects or non-compliance from spending that does not meet the requirement for spending to be purely business related.
- Downside risks include that this proposal may just legalise (unlawful) deductions which are currently being claimed.

Thanks very much!

Regards, YY

Yiyong Cai (蔡奕勇) – he/him/他 | Assistant Secretary
Business and Superannuation Tax Analysis Branch
Tax Analysis Division



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~~PROTECTED//CABINET~~

From: Kennedy, Darren [REDACTED] [@treasury.gov.au](mailto:[REDACTED]@treasury.gov.au)>
Sent: Wednesday, 29 January 2025 2:04 PM
To: Cai, Yiyong [REDACTED] [@treasury.gov.au](mailto:[REDACTED]@treasury.gov.au)>; [REDACTED] [@TREASURY.GOV.AU](mailto:[REDACTED]@TREASURY.GOV.AU)>
Cc: Maher, Richard [REDACTED] [@TREASURY.GOV.AU](mailto:[REDACTED]@TREASURY.GOV.AU)>
Subject: Fw: Request for information [SEC-PROTECTED, CAMEAT-SH-CABINET]

~~PROTECTED//CABINET~~

For action.

YY - given the indicative figures [REDACTED] has worked up, do you want to talk [REDACTED] through these and see if that gets us a fair way?

~~PROTECTED//CABINET~~

From: [REDACTED] <[REDACTED]@TREASURY.GOV.AU>
Sent: Wednesday, January 29, 2025 12:46 pm
To: Kennedy, Darren [REDACTED] <[REDACTED]@treasury.gov.au>
Subject: Request for information[~~SEC PROTECTED, CAVENT CH/CABINET~~]

~~PROTECTED//CABINET~~

Hi Darren

Grateful if you could please assist with a policy costing.

Please cost a proposal with the following elements:

1. Allow small businesses to deduct up to \$20,000 per year for meal and entertainment expenses, excluding alcohol.

- The scope of meal and entertainment expenses is per current ATO interpretation.
- There is no requirement for FBT to apply before these expenses can be deducted.
- Small businesses are those with an aggregated turnover of less than \$10 million.

2. Any meal and entertainment fringe benefits provided to employees under element 1 above, including their families and associates, by an employer will be exempt from Fringe Benefits Tax.

3. In addition, cost the following variations:

- Sensitivity analysis based on different take up rates and claim rates.
- Meal and entertainment eligible expenses are limited to the meal component.
- Businesses with employees are eligible.

Could you please get back to me by Friday morning? Let me know if any issues.

Thank you

[REDACTED]

~~PROTECTED//CABINET~~

From: Cai, Yiyong
Sent: Friday, 31 January 2025 7:03 PM
To: Kennedy, Darren
Cc: [REDACTED]
Subject: RE: Request for information[~~SEC-PROTECTED, CAVEAT-SH-CABINET~~]

~~PROTECTED//CABINET~~

Regards, YY

Yiyong Cai (蔡奕勇) – he/him/他 | Assistant Secretary
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[REDACTED]

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~~PROTECTED//CABINET~~

From: Kennedy, Darren [REDACTED]@treasury.gov.au>
Sent: Friday, 31 January 2025 6:36 PM
To: Cai, Yiyong [REDACTED]@treasury.gov.au>
Cc: [REDACTED]@TREASURY.GOV.AU>; Maher, Richard [REDACTED]@TREASURY.GOV.AU>
Subject: RE: Request for information[~~SEC-PROTECTED, CAVEAT-SH-CABINET~~]

~~PROTECTED//CABINET~~

Some additional tweaks! Thanks Richard for the million/billion pickup.

~~PROTECTED//CABINET~~

From: Kennedy, Darren
Sent: Friday, 31 January 2025 6:26 PM
To: Cai, Yiyong [REDACTED]@treasury.gov.au>; Brown, Diane [REDACTED]@TREASURY.GOV.AU>
Cc: [REDACTED]@TREASURY.GOV.AU>; Maher, Richard [REDACTED]@TREASURY.GOV.AU>
Subject: RE: Request for information[~~SEC-PROTECTED, CAVEAT-SH-CABINET~~]

Thanks YY and [REDACTED] for this terrific work. I have tweaked the draft email in a few places

Darren

From: Cai, Yiyong [REDACTED]@treasury.gov.au>

Sent: Friday, 31 January 2025 6:07 PM

To: Brown, Diane [REDACTED]@TREASURY.GOV.AU>

Cc: Kennedy, Darren [REDACTED]@treasury.gov.au>; [REDACTED]@TREASURY.GOV.AU>; Maher, Richard [REDACTED]@TREASURY.GOV.AU>

Subject: FW: Request for information[SEC-PROTECTED, SENSITIVE-CABINET]

~~PROTECTED//CABINET~~

Hi [REDACTED]

You requested a costing on a proposal to allow small businesses (with turnover under \$10 million) to deduct up to \$20,000 per year for meal and entertainment expenses, excluding alcohol.

We have costed this proposal at \$500 million per annum for meal expenses only, and at \$1.6 billion per annum for all entertainment expenses.

- Please note that there is limited data available, and therefore this costing is of low reliability.

While all 4 million small businesses are eligible to benefit from the proposals, only 2.6 million small businesses are actively trading. Our costings therefore imply:

- An average \$750 deduction per annum for each actively trading business if only meal expenses are deductible.
- An average \$2,500 deduction per annum for each actively trading business if all entertainment expenses are deductible.

Note there will be a wide variation in deductions for individual businesses around these averages.

This costing is based on a top-down approach, using macroeconomic data from Aus and the US. We assume:

- Business spending on meals is 0.3% of GDP (around \$8 billion), based on US data. Half of this spending (around \$4 billion) is attributed to small businesses, based on their share of payments to employees in Aus tax stats. While the data is less reliable, we have assumed entertainment expenses are 1% of GDP.
- As result of the benchmarking to the US, our costing is limited to legitimate business expenses and has made no provision for substitution of private expenditure. We have not made any further allowance for greater spending in Australia above the United States, although this proposal is more generous than arrangements in the United States (which only allow for a 50% deduction, rather than 100% up to \$20,000).
 - o The costing can be scaled to pick up any additional behavioural response.
 - o For example, if we assume businesses spend 0.4% of GDP on food, equivalent to a 30% additional take-up. This would cost \$650 mil per annum for meal expenses only proposal. A similar 30% additional take-up for all entertainment (i.e. 1.3% of GDP) would increase the cost to \$2 bil per annum.

This top-down approach is consistent with Treasury's previous costings for other business tax measures (e.g. the small business energy incentive) where data availability is limited.

There are significant risks that the cost could be higher or lower.

- Upside risks include an increased behavioural response and/or non-compliance from spending that does not meet the requirement of being business-related.
- Downside risks include that this proposal may just legalise existing (unlawful) deductions that may currently be claimed.

Regards, YY

Yiyong Cai (蔡奕勇) ~ he/him/他 | Assistant Secretary
Business and Superannuation Tax Analysis Branch
Tax Analysis Division

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~~PROTECTED//CABINET~~
From: Kennedy, Darren [REDACTED] [@treasury.gov.au](#)>
Sent: Wednesday, 29 January 2025 2:04 PM
To: Cai, Yiyong [REDACTED] [@treasury.gov.au](#)>; [REDACTED] [@TREASURY.GOV.AU](#)>
Cc: Maher, Richard [REDACTED] [@TREASURY.GOV.AU](#)>
Subject: Fw: Request for information [SEC PROTECTED, CAVEAT ON CABINET]

~~PROTECTED//CABINET~~
For action.

YY - given the indicative figures [REDACTED] has worked up, do you want to talk [REDACTED] through these and see if that gets us a fair way?

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~~PROTECTED//CABINET~~
From: [REDACTED] [@TREASURY.GOV.AU](#)>
Sent: Wednesday, January 29, 2025 12:46 pm
To: Kennedy, Darren [REDACTED] [@treasury.gov.au](#)>
Subject: Request for information [SEC PROTECTED, CAVEAT ON CABINET]

~~PROTECTED//CABINET~~
Hi Darren

Grateful if you could please assist with a policy costing.

Please cost a proposal with the following elements:

1. Allow small businesses to deduct up to \$20,000 per year for meal and entertainment expenses, excluding alcohol.

- The scope of meal and entertainment expenses is per current ATO interpretation.
- There is no requirement for FBT to apply before these expenses can be deducted.
- Small businesses are those with an aggregated turnover of less than \$10 million.

2. Any meal and entertainment fringe benefits provided to employees under element 1 above, including their families and associates, by an employer will be exempt from Fringe Benefits Tax.

3. In addition, cost the following variations:

- Sensitivity analysis based on different take up rates and claim rates.
- Meal and entertainment eligible expenses are limited to the meal component.
- Businesses with employees are eligible.

Could you please get back to me by Friday morning? Let me know if any issues.

Thank you



~~PROTECTED//CABINET~~

From: Cai, Yiyong
Sent: Friday, 31 January 2025 7:12 PM
To: Brown, Diane
Cc: Kennedy, Darren; [REDACTED] Maher, Richard
Subject: RE: Request for information[REDACTED] [REDACTED]

[REDACTED]

Thanks Diane – below is our latest version based on discussion with Darren and [REDACTED]

Hi [REDACTED]

You requested a costing on a proposal to allow small businesses (with turnover under \$10 million) to deduct up to \$20,000 per year for meal and entertainment expenses, excluding alcohol.

We have costed this proposal at \$500 million per annum for meal expenses only, and at \$1.6 billion per annum for all entertainment expenses.

- Please note that there is limited data available, and therefore this costing is of low reliability.

While all 4 million small businesses are eligible to benefit from the proposals, only 2.6 million small businesses are actively trading. Our costings therefore imply:

- An average \$750 deduction per annum for each actively trading business if only meal expenses are deductible.
- An average \$2,500 deduction per annum for each actively trading business if all entertainment expenses are deductible.

Note there will be a wide variation in deductions for individual businesses around these averages.

This costing is based on a top-down approach, using macroeconomic data from Aus and the US. We assume:

- Business spending on meals is 0.3% of GDP (around \$8 billion), based on US data. Half of this spending (around \$4 billion) is attributed to small businesses, based on their share of payments to employees in Aus tax stats. While the data is less reliable, we have assumed entertainment expenses are 1% of GDP.
- As result of the benchmarking to the US, our costing is limited to legitimate business expenses and has made no provision for substitution of private expenditure. We have not made any further allowance for greater spending in Australia above the United States, although this proposal is more generous than arrangements in the United States (which only allow for a 50% deduction, rather than 100% up to \$20,000).
 - o The costing can be scaled to pick up any additional behavioural response.
 - o For example, if we assume businesses spend 0.4% of GDP on food, equivalent to a 30% additional take-up. This would cost \$650 mil per annum for meal expenses only proposal. A similar 30% additional take-up for all entertainment (i.e. 1.3% of GDP) would increase the cost to \$2 bil per annum.

This top-down approach is consistent with Treasury's previous costings for other business tax measures (e.g. the small business energy incentive) where data availability is limited.

There are significant risks that the cost could be higher or lower.

- Upside risks include an increased behavioural response and/or non-compliance from spending that does not meet the requirement of being business-related.

- Downside risks include that this proposal may just legalise existing (unlawful) deductions that may currently be claimed.
- Balancing the upside and downside risks, it remains our central estimate to assume business spend 0.3% of GDP on meals, and 1% of GDP on all entertainment.

Regards, YY

Yiyong Cai (蔡奕勇) – he/him/他 | Assistant Secretary
Business and Superannuation Tax Analysis Branch
Tax Analysis Division

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~~PROTECTED//CABINET~~

From: Brown, Diane [REDACTED] @TREASURY.GOV.AU>
Sent: Friday, 31 January 2025 6:28 PM
To: Cai, Yiyong [REDACTED] @treasury.gov.au>
Cc: Kennedy, Darren [REDACTED] @treasury.gov.au>; [REDACTED] @TREASURY.GOV.AU>; Maher, Richard [REDACTED] @TREASURY.GOV.AU>
Subject: RE: Request for information [SEC-PROTECTED, CAVEAT-SH-CABINET]

~~PROTECTED//CABINET~~

Thanks Yiyong. Understand Darren is making some tweaks but something like this looks good and happy for Darren to settle with you.

You may want to consider explaining in a bit more detail, why half of meals spending is attributed to small business; and making clear that within the average tax benefit, there could be great variability.

~~PROTECTED//CABINET~~

From: Cai, Yiyong [REDACTED] @treasury.gov.au>
Sent: Friday, 31 January 2025 6:07 PM
To: Brown, Diane [REDACTED] @TREASURY.GOV.AU>
Cc: Kennedy, Darren [REDACTED] @treasury.gov.au>; [REDACTED] @TREASURY.GOV.AU>; [REDACTED] @TREASURY.GOV.AU>
Subject: FW: Request for information [SEC-PROTECTED, CAVEAT-SH-CABINET]

Hi Diane – we have drafted the following email to [REDACTED] for her costing request. Could you please let us know if you have any comments?

Hi XXX,

You requested a costing on a proposal to allow small businesses (with turnover under \$10 million) to deduct up to \$20,000 per year for meal and entertainment expenses, excluding alcohol.

We have costed this at \$500 million per annum for meal expenses only, and at \$1.6 million per annum for all entertainment expenses.

- Please note that there is limited data available, and therefore this costing is of low reliability.

This costing is based on a top-down approach, using macroeconomic data from Aus and the US. We assume:

- Business spending on meals is 0.3% of GDP (around \$8 billion), based on US data. Half of this spending (around \$4 billion) is attributed to small businesses, based on Aus tax stats.
 - o As we don't have data to reliably cost all entertainment expenses, including and excluding alcohol, we have assumed entertainment expenses are 1% of GDP.
- As result of the benchmarking to the US, our costing is limited to legitimate business expenses and has made no provision for substitution of private expenditure. We have not made any further allowance for greater spending in Australia, although this proposal is more generous than arrangements in the United States.
 - o The costing can be scaled to pick up additional behavioural response.

All 4 million small businesses are eligible to benefit from the proposals, but there are only 2.6 million small businesses actively trading. Our costings therefore imply:

- An average tax benefit of around \$250 (or around \$750 in eligible expenditure) per annum for each actively trading business if only meal expenses are deductible
- An average benefit of \$around \$750 (or around \$2,500 deduction) per annum for each actively business if all entertainment expenses are deductible.

This top-down approach is consistent with Treasury's previous costings for other business tax measures where data availability is limited.

There are significant risks that the cost could be higher or lower.

- Upside risks include increased behavioural effects or non-compliance from spending that does not meet the requirement for spending to be purely business related.
- Downside risks include that this proposal may just legalise (unlawful) deductions which are currently being claimed.

Thanks very much!

Regards, YY

Yiyong Cai (蔡奕勇) – he/him/他 | Assistant Secretary
Business and Superannuation Tax Analysis Branch
Tax Analysis Division
[REDACTED]

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~~PROTECTED//CABINET~~

From: Kennedy, Darren <[REDACTED]@treasury.gov.au>
Sent: Wednesday, 29 January 2025 2:04 PM
To: Cai, Yiyong <[REDACTED]@treasury.gov.au>; [REDACTED] <[REDACTED]@TREASURY.GOV.AU>
Cc: Maher, Richard <[REDACTED]@TREASURY.GOV.AU>
Subject: Fw: Request for information[SEC PROTECTED, CAVEAT - C/CABINET]

~~PROTECTED//CABINET~~

For action.

YY - given the indicative figures [REDACTED] has worked up, do you want to talk [REDACTED] through these and see if that gets us a fair way?

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From: [REDACTED] <[REDACTED]@TREASURY.GOV.AU>
Sent: Wednesday, January 29, 2025 12:46 pm
To: Kennedy, Darren <[REDACTED]@treasury.gov.au>
Subject: Request for information[SEC PROTECTED, CAVEAT - C/CABINET]

~~PROTECTED//CABINET~~

Hi Darren

Grateful if you could please assist with a policy costing.

Please cost a proposal with the following elements:

1. Allow small businesses to deduct up to \$20,000 per year for meal and entertainment expenses, excluding alcohol.

- The scope of meal and entertainment expenses is per current ATO interpretation.
- There is no requirement for FBT to apply before these expenses can be deducted.
- Small businesses are those with an aggregated turnover of less than \$10 million.

2. Any meal and entertainment fringe benefits provided to employees under element 1 above, including their families and associates, by an employer will be exempt from Fringe Benefits Tax.

3. In addition, cost the following variations:

- Sensitivity analysis based on different take up rates and claim rates.
- Meal and entertainment eligible expenses are limited to the meal component.

- Businesses with employees are eligible.

Could you please get back to me by Friday morning? Let me know if any issues.

Thank you

[REDACTED]

~~PROTECTED//CABINET~~

From: Brown, Diane
Sent: Saturday, 1 February 2025 12:21 PM
To: Cai, Yiyong
Cc: Kennedy, Darren; [REDACTED] Maher, Richard
Subject: RE: costing request [REDACTED]

~~PROTECTED~~

Thanks for your work everyone.

Just by way of expanding a bit further on the explanation – grateful if you would correct where wrong:

- The US has a more generous tax treatment so is a reasonable proxy for what may occur here if taxation arrangements are considered
- We have looked at current food/entertainment expenses by businesses in Australia and it is evident in bigger businesses, but not in smaller business.
- To the extent small business do incur these expenses already, we have made adjustments so just looking at the additional new spending.
- Given expenditure can be variable, we have capped those businesses where, if expenditure is calculated as a function of turnover, the expenditure would exceed \$20K.
- The average expenditure is then based on that adjusted number (and on basis of only actively traded companies)

~~PROTECTED~~

From: Cai, Yiyong [REDACTED]@treasury.gov.au>
Sent: Saturday, 1 February 2025 11:47 AM
To: [REDACTED]@TREASURY.GOV.AU>
Cc: Brown, Diane [REDACTED]@TREASURY.GOV.AU>; Kennedy, Darren [REDACTED]@treasury.gov.au>; [REDACTED]@TREASURY.GOV.AU>; Maher, Richard [REDACTED]@TREASURY.GOV.AU>
Subject: Re: costing request [REDACTED]

~~PROTECTED~~

Hi [REDACTED]

You requested a costing on a proposal to allow small businesses (with turnover under \$10 million) to deduct up to \$20,000 per year for meal and entertainment expenses, excluding alcohol.

We have costed this proposal at \$500 million per annum for meal expenses only, and at \$1.6 billion per annum for all entertainment expenses.

- Please note that there is limited data available, and therefore this costing is of low reliability.

While all 4 million small businesses are eligible to benefit from the proposals, only 2.6 million small businesses are actively trading. Our costings therefore imply:

- An average \$750 deduction per annum for each actively trading business if only meal expenses are deductible.

- An average \$2,500 deduction per annum for each actively trading business if all entertainment expenses are deductible.

Note there will be a wide variation in deductions for individual businesses around these averages.

This costing is based on a top-down approach, using macroeconomic data from Aus and the US. We assume:

- Business spending on meals is 0.3% of GDP (around \$8 billion), based on US data. Half of this spending (around \$4 billion) is attributed to small businesses, based on their share of payments to employees in Aus tax stats. While the data is less reliable, we have assumed entertainment expenses are 1% of GDP.
- As result of the benchmarking to the US, our costing is limited to legitimate business expenses and has made no provision for substitution of private expenditure. We have not made any further allowance for greater spending in Australia above the United States, although this proposal is more generous than arrangements in the United States (which only allow for a 50% deduction, rather than 100% up to \$20,000).
 - The costing can be scaled to pick up any additional behavioural response.
 - For example, if we assume businesses spend 0.4% of GDP on food, equivalent to a 30% additional take-up. This would cost \$650 million per annum for meal expenses only proposal. A similar 30% additional take-up for all entertainment (i.e. 1.3% of GDP) would increase the cost to \$2 billion per annum.
 - Alternatively, if we assume businesses spend 0.45% of GDP on food, equivalent to a 50% additional take-up. This would cost \$750 million per annum for the meal expenses only proposal. A similar 50% additional take-up for all entertainment (i.e. 1.5% of GDP) would increase the cost to \$2.4 billion per annum.

This top-down approach is consistent with Treasury's previous costings for other business tax measures (e.g. the small business energy incentive) where data availability is limited.

There are significant risks that the cost could be higher or lower.

- Upside risks include an increased behavioural response and/or non-compliance from spending that does not meet the requirement of being business-related. If all the 4 million small businesses fully utilise the deduction to the \$20,000 cap, then the cost of either proposal can easily exceed \$10 billion per annum.
- Downside risks include that this proposal may just legalise existing (unlawful) deductions that may currently be claimed.
- Balancing the upside and downside risks, it remains our central estimate to assume businesses spend 0.3% of GDP on meals, and 1% of GDP on all entertainment.
- Because our costings are limited to legitimate business expenditures, the actual cost of the proposals could be significantly larger if the take-up of the policy or the average claim for deduction per business is substantially higher than what we have estimated as it is difficult to police in practice.

Please note that our costing has incorporated the impact on FBT and GST. In particular, the allowance of deduction will give rise to GST input tax credit, which would reduce GST payments to the states and territories by \$169 million per annum for the meals only proposal, and \$552 million per annum for the all entertainment expenses proposal. However, this GST component of the costing would not have an impact on UCB for the Commonwealth.

	Meals only	All entertainment
Reduction in income tax	-\$464 million	-\$1,517 million
Reduction in fringe benefits tax (net of deductibility)	-\$24.3 million	-\$78.3 million

Reduction in GST	-\$169 million	-\$552 million
Receipts impact	-\$657.3 million	-\$2,130 million
GST payments	+\$169 million	+\$552 million
UCB impact	-\$488.3 million	-\$1,595.3 million as

	Meals only	All entertainment
Income Tax benefit to business	\$464 million	\$1,517 million
Number of actively trading businesses (<\$10m turnover)	2.6 million	2.6 million
Average income tax benefit per business	\$178	\$580
Average deduction per business	\$750	\$2,500
% of the \$20,000 cap	<4%	12.5%

Regards, YY

Yiyong Cai (蔡奕勇) – he/him/他 | Assistant Secretary
Business and Superannuation Tax Analysis Branch
Tax Analysis Division

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From: Kennedy, Darren
Sent: Monday, 3 February 2025 6:05 PM
To: Maher, Richard; [REDACTED] Cai, Yiyong
Subject: RE: costing request[REDACTED]

[REDACTED]

This looks pretty useful to me Richard. But I do feel you need to loop back to her question.

Feel free to disagree with any of this – but I would just add a sentence that notes it is not certain whether implementing the proposal would leverage the current definition of ‘meal entertainment’ or whether it would introduce a new definition in income tax law. If we developed a new definition, we would work with the ATO (and legislative drafters) about how best to define this to achieve the policy intent.

However, based on what we have costed here – and YY/ [REDACTED] feel free to correct me – I feel like we have costed something that is the provision of food or drink to employees or clients in a business context or for business purposes. (I acknowledge that defining business purposes in law may not be straight forward) Obviously the weaker the business link (and the stronger the entertainment link), the higher the costing. We noted this risk in the briefing we provided.

Are you also able to include a simple meal example? For example, sandwiches/lunch provided on-premises during a meeting/working lunch? (ie I could be wrong here, but I am assuming these are already deductible and no FBT?)

Darren

[REDACTED]

From: Maher, Richard [REDACTED]@TREASURY.GOV.AU>
Sent: Monday, 3 February 2025 5:44 PM
To: [REDACTED]@TREASURY.GOV.AU>; Cai, Yiyong [REDACTED]@treasury.gov.au>
Cc: Kennedy, Darren [REDACTED]@treasury.gov.au>
Subject: RE: costing request[REDACTED]

[REDACTED]

Hi – potential response to Diane’s query below. Not sure whether still needed though and/or if you think hits the mark?

Diane,

You asked about how ‘meal expense’ and ‘entertainment expense’ are being defined here, and for some examples.

'Meal expenses' is not a defined term under current tax law. Currently defined terms are:

- 'entertainment expenses' (costs incurred in providing entertainment by way of food, drink or recreation including accommodations or travel related to the entertainment); and
- 'meal entertainment' (provision of entertainment by way of food or drink and related accommodation or travel).

Something that is an *entertainment expense* is not deductible for income tax for a business unless an exception applies. A key exception is where the provision of the entertainment comprises a fringe benefit, then the costs are deductible to the business, and fringe benefits tax applies to the benefit. A fringe benefit may arise where the entertainment is provided to employees or their associates and only relates to their share of the entertainment.

Examples of how the current law works include:

1. **Business lunches** – business pays restaurant bill for lunch with two staff and clients. The expenses are apportioned between clients and staff, the client's share is not deductible. If no FBT exemptions apply the staff share is deductible but subject to FBT, where an FBT exemption applies the expenses are non-deductible.
2. **Social functions** – business books a venue and hosts a cocktail party for staff to celebrate winning a new contract. This is all staff so subject to any FBT exemptions the expenses are deductible and FBT applies.
3. **Business hires a corporate box (including food and drink) at a football ground** and hosts staff and clients at games. Similar to above, the costs will need to be apportioned between clients and staff to determine deductibility and any FBT.

The costing estimates provided to [REDACTED] are based off macroeconomic data (e.g. from National Accounts) which don't correspond directly to concepts or labels from current tax returns.

Ultimately this is one where the devil really would be in the detail of any policy/law change. The Coalition's media release of 19 January (Tax Deduction To Deliver Red Tape Relief for Small Business) includes the following paragraph: "Shadow Treasurer Angus Taylor said the new deduction would apply to meal and entertainment expenses that have a connection with business activity and income, including dining and entertainment provided to clients, vendors, and employees."

[REDACTED]

From: Brown, Diane [REDACTED] @TREASURY.GOV.AU>

Sent: Saturday, 1 February 2025 5:07 PM

To: [REDACTED] @TREASURY.GOV.AU>; Cai, Yiyong [REDACTED] @treasury.gov.au>

Cc: Kennedy, Darren [REDACTED] @treasury.gov.au>; [REDACTED] @TREASURY.GOV.AU>

Subject: RE: costing request[REDACTED]

[REDACTED]

Thanks again for this.

Early on Monday, can I also please get a crisp, publicly repeatable definition of "meal expense" and "entertainment expense" - Who is caught and what are some examples of expenditure.

~~PROTECTED~~

From: [REDACTED] <[REDACTED]@TREASURY.GOV.AU>
Sent: Saturday, 1 February 2025 12:49 PM
To: Brown, Diane [REDACTED] <[REDACTED]@TREASURY.GOV.AU>; Cai, Yiyong [REDACTED] <[REDACTED]@treasury.gov.au>
Cc: Kennedy, Darren [REDACTED] <[REDACTED]@treasury.gov.au>; Maher, Richard [REDACTED] <[REDACTED]@TREASURY.GOV.AU>
Subject: RE: costing request [REDACTED]

~~PROTECTED~~

Good afternoon Diane,

I have made some clarifying tweaks and provided a little more information (of course, please feel free to cut back if it is too much). Happy to take any questions.

A couple of notes on my changes:

- On your 3rd dot point - we have not separately identified spending already being incurred but not in the tax data vs 'new spending'.
- On your 4th dot point - we used the existing proportion of small business FBT meal expenses above the \$20k cap, rather than performing a new microsimulation based on turnover.

Regards,

[REDACTED]
Tax Analysis Division | Revenue Group
The Treasury, Langton Crescent, Parkes ACT 2600
[REDACTED] <[REDACTED]@treasury.gov.au>



Australian Government
The Treasury

~~PROTECTED~~

From: Brown, Diane [REDACTED] <[REDACTED]@TREASURY.GOV.AU>
Sent: Saturday, 1 February 2025 12:21 PM
To: Cai, Yiyong [REDACTED] <[REDACTED]@treasury.gov.au>
Cc: Kennedy, Darren [REDACTED] <[REDACTED]@treasury.gov.au>; [REDACTED] <[REDACTED]@TREASURY.GOV.AU>; Maher, Richard [REDACTED] <[REDACTED]@TREASURY.GOV.AU>
Subject: RE: costing request [REDACTED]

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Thanks for your work everyone.

Just by way of expanding a bit further on the explanation - grateful if you would correct where wrong:

- The US has a more generous tax treatment **than Australia currently has** so is a reasonable proxy for what may occur here if taxation arrangements are considered
- We have looked at current food/entertainment FBT expenses by businesses in Australia **(the only data available and likely what other agencies would look at)** and it is evident in bigger businesses, but not in smaller business.
 - **Other entertainment expenses are not separately identifiable, and this seems to be the case in other jurisdictions also.**
 - **This is FBT data, so is limited to expenditure on employees (not all spending on associates or by any non-employing businesses).**
- ~~To the extent small business do incur these expenses already, we have made adjustments so just looking at the additional new spending.~~
- **We assume that the proposed arrangements would result in businesses claiming for expenses already incurred as well as incurring new spending, and have benchmarked the total to US expenditure.**
- ~~Given expenditure can be variable, we have capped those businesses where, if expenditure is calculated as a function of turnover, the expenditure would exceed \$20K.~~
- **Given expenditure can vary across businesses, we have discounted for the proportion of expenditure that would exceed \$20k per business using existing FBT unit record data.**
- The average expenditure is then based on that **adjusted discounted** number (and on basis of only actively traded companies)

~~PROTECTED~~

From: Cai, Yiyong [REDACTED]@treasury.gov.au>

Sent: Saturday, 1 February 2025 11:47 AM

To: [REDACTED]@TREASURY.GOV.AU>

Cc: Brown, Diane [REDACTED]@TREASURY.GOV.AU>; Kennedy, Darren [REDACTED]@treasury.gov.au>;

[REDACTED]@TREASURY.GOV.AU>; Maher, Richard [REDACTED]@TREASURY.GOV.AU>

Subject: Re: costing request[~~SECRET PROTECTED~~]

~~PROTECTED~~

Hi [REDACTED]

You requested a costing on a proposal to allow small businesses (with turnover under \$10 million) to deduct up to \$20,000 per year for meal and entertainment expenses, excluding alcohol.

We have costed this proposal at \$500 million per annum for meal expenses only, and at \$1.6 billion per annum for all entertainment expenses.

- Please note that there is limited data available, and therefore this costing is of low reliability.

While all 4 million small businesses are eligible to benefit from the proposals, only 2.6 million small businesses are actively trading. Our costings therefore imply:

- An average \$750 deduction per annum for each actively trading business if only meal expenses are deductible.
- An average \$2,500 deduction per annum for each actively trading business if all entertainment expenses are deductible.

Note there will be a wide variation in deductions for individual businesses around these averages.

This costing is based on a top-down approach, using macroeconomic data from Aus and the US. We assume:

- Business spending on meals is 0.3% of GDP (around \$8 billion), based on US data. Half of this spending (around \$4 billion) is attributed to small businesses, based on their share of payments to

employees in Aus tax stats. While the data is less reliable, we have assumed entertainment expenses are 1% of GDP.

- As result of the benchmarking to the US, our costing is limited to legitimate business expenses and has made no provision for substitution of private expenditure. We have not made any further allowance for greater spending in Australia above the United States, although this proposal is more generous than arrangements in the United States (which only allow for a 50% deduction, rather than 100% up to \$20,000).
 - The costing can be scaled to pick up any additional behavioural response.
 - For example, if we assume businesses spend 0.4% of GDP on food, equivalent to a 30% additional take-up. This would cost \$650 million per annum for meal expenses only proposal. A similar 30% additional take-up for all entertainment (i.e. 1.3% of GDP) would increase the cost to \$2 billion per annum.
 - Alternatively, if we assume businesses spend 0.45% of GDP on food, equivalent to a 50% additional take-up. This would cost \$750 million per annum for the meal expenses only proposal. A similar 50% additional take-up for all entertainment (i.e. 1.5% of GDP) would increase the cost to \$2.4 billion per annum.

This top-down approach is consistent with Treasury's previous costings for other business tax measures (e.g. the small business energy incentive) where data availability is limited.

There are significant risks that the cost could be higher or lower.

- Upside risks include an increased behavioural response and/or non-compliance from spending that does not meet the requirement of being business-related. If all the 4 million small businesses fully utilise the deduction to the \$20,000 cap, then the cost of either proposal can easily exceed \$10 billion per annum.
- Downside risks include that this proposal may just legalise existing (unlawful) deductions that may currently be claimed.
- Balancing the upside and downside risks, it remains our central estimate to assume businesses spend 0.3% of GDP on meals, and 1% of GDP on all entertainment.
- Because our costings are limited to legitimate business expenditures, the actual cost of the proposals could be significantly larger if the take-up of the policy or the average claim for deduction per business is substantially higher than what we have estimated as it is difficult to police in practice.

Please note that our costing has incorporated the impact on FBT and GST. In particular, the allowance of deduction will give rise to GST input tax credit, which would reduce GST payments to the states and territories by \$169 million per annum for the meals only proposal, and \$552 million per annum for the all entertainment expenses proposal. However, this GST component of the costing would not have an impact on UCB for the Commonwealth.

	Meals only	All entertainment
Reduction in income tax	-\$464 million	-\$1,517 million
Reduction in fringe benefits tax (net of deductibility)	-\$24.3 million	-\$78.3 million
Reduction in GST	-\$169 million	-\$552 million
Receipts impact	-\$657.3 million	-\$2,130 million
GST payments	+\$169 million	+\$552 million
UCB impact	-\$488.3 million	-\$1,595.3 million as

	Meals only	All entertainment
Income Tax benefit to business	\$464 million	\$1,517 million
Number of actively trading businesses (<\$10m turnover)	2.6 million	2.6 million
Average income tax benefit per business	\$178	\$580
Average deduction per business	\$750	\$2,500
% of the \$20,000 cap	<4%	12.5%

Regards, YY

Yiyong Cai (蔡奕勇) - he/him/他 | Assistant Secretary
Business and Superannuation Tax Analysis Branch
Tax Analysis Division

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[Twitter](#) | [LinkedIn](#) | [Facebook](#)

The Treasury acknowledges the traditional owners of country throughout Australia, and their continuing connection to land, water and community. We pay our respects to them and their cultures and to elders both past and present.

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