

Staff Entertainment- tax issues

The basic rule is that staff entertaining is allowable so long as it is wholly and exclusively for the purposes of the trade, and not incidental to entertainment provided for customers.

Although the expenditure is allowable against tax for the company or business, the employees themselves **may** have to pay tax on the value of the entertainment received and the employer has to report this on the P11D, if it is in excess of the £150 exemption.

How does the exemption work?

- The figure of £150 is an annual limit, so all social functions for staff in a tax year must be counted
- All functions must be open to all employees
- All costs must be taken into account in calculating the price per head: eg transport, food, drink
- If all social functions add up to more than £150 per head, then need to select which ones are going to use the exemption
- It is an **exemption**, not an annual **allowance**
- Employees earning less than £8500 per annum are not taxed at all

What happens if the cost exceeds the exemption?

If the cost is higher than £150 for an event, eg £200, the whole amount goes on to the P11d. The alternative is that the employer enters into a PAYE settlement arrangement with HMRC to pay the tax and Class IB NI. This must be done by 6 July following the tax year in which payments were made.

What about team meetings/team building away days?

If there is a genuine business reason for the event and there is supporting documentation to show that this was substantially business content then HMRC usually allow it to be tax free on employees.

However, if the event is really a reward for employees-personal enjoyment and recreational activities are more than incidental, then some or all of the costs are taxable on the employees subject to annual exemption points outlined above.

PAYE audit

Entertainment expenses are often top of the list when HMRC come out to do an audit, so it is important to have documentation to support the tax treatment chosen. They often look at items charged to disallowable business entertainment because if they decide they are in fact staff entertainment then there is a bigger tax bill to levy in terms of the P11D and personal income tax!

Knight & Company
11 Castle Hill
Maidenhead
Berkshire
SL6 4AA

01628 631056

Website: www.knightandcompany.co.uk
email: geoffk@knightandcompany.co.uk
tracya@knightandcompany.co.uk