

Your Guide to Business Entertainment & Employee subsistence Tax Relief

Introduction

Many business owners seek to motivate and thank their team and their customers via social events and entertaining.

Most spend business funds when hosting these stakeholders which can lead to confusion about what qualifies for entertainment expenses against which tax relief can be claimed.

In this guide we answer the most common questions posed by our customers, to enable you to gain a clearer understanding of the current tax rules on business social events, employee subsistence and customer entertainment.

Disclaimer

This guide shares HMRC tax relief information in summary form around the more common scenarios raised. Other special tax rules exist and your specific situation should always be confirmed with an accountant.

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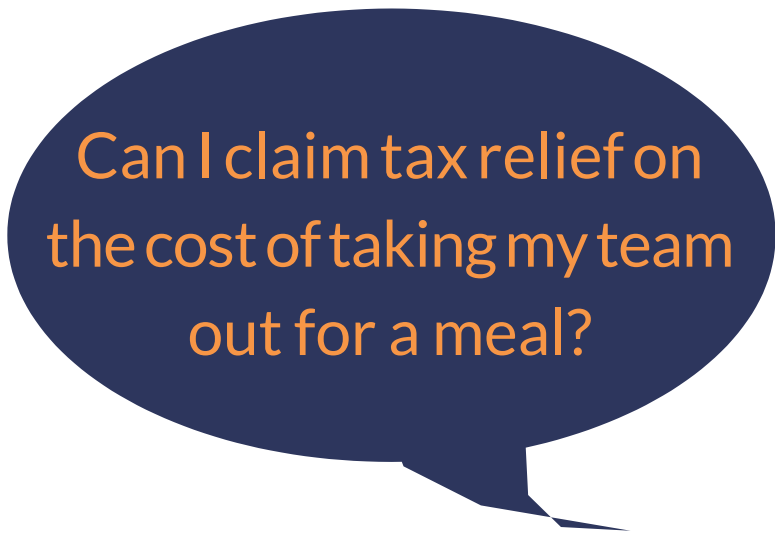
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Employee Entertainment



Can I claim tax relief on the cost of taking my team out for a meal?

Employee entertaining is allowable if it is wholly and exclusively for the purpose of the trade and not merely incidental to entertainment which is provided for customers.

Entertaining your employees is considered a tax-deductible business expense when **all** of the following apply:

- **Those attending are paid a salary via your business payroll.**

This definition therefore *excludes* contractors, subcontractors, shareholders and potential employees. It also excludes you if you operate as a sole trader, via a partnership or limited liability partnership (LLP), as under these business setups, there is no legal separation between you and your business.

If an annual function is primarily for employees but non-employees are also present, VAT may be claimed for the proportion that relates to the employees. So if a party has 20 employees and 5 non-employees, you may reclaim four-fifths of the input tax.

- **Expenses are kept 'within reason'.**
- **The meal or event is taking place for business reasons.**

Expenses claimed for socials where relatives or those with close personal relationships attending may be challenged by HMRC.

I have organised a breakfast team meeting - is the cost a tax-deductible expense?

Yes, this is okay from a tax perspective assuming the above factors are true, and on the basis the purpose of the meeting is to discuss business.

I heard about an individual employee annual tax-free allowance of £150. Is this correct?

This is not a tax-free allowance; the £150 is an exemption that is applied to 'annual' social functions provided to employees, their partners and ex-employees and their partners during the tax year.

Although the expenditure is allowable for the business, the employees themselves *may* have to pay tax on the entertainment received.

You can ensure your employees do not attract income tax in this way by keeping the cost of annual employee functions equal or less than £150 per attendee each year.

Or, if the cost exceeds £150 per head, you can agree to pay any tax and NICs due on the employee entertainment by using a PAYE Settlement Agreement (PSA).

The £150 (inclusive of VAT) will include the following:

- Food
- Drink
- Entertainment
- Venue hire
- Transport, and
- Overnight accommodation

If there have been multiple annual functions during the year which, in total, breach the £150 exemption, then only the functions over £150 will be taxable.

For example:

• Annual Summer BBQ	-	£ 70 per head
• Annual Sporting Event	-	£ 50 per head
• Annual Christmas Function	-	£100 per head
• Total cost of events during the tax year	-	£220 per head

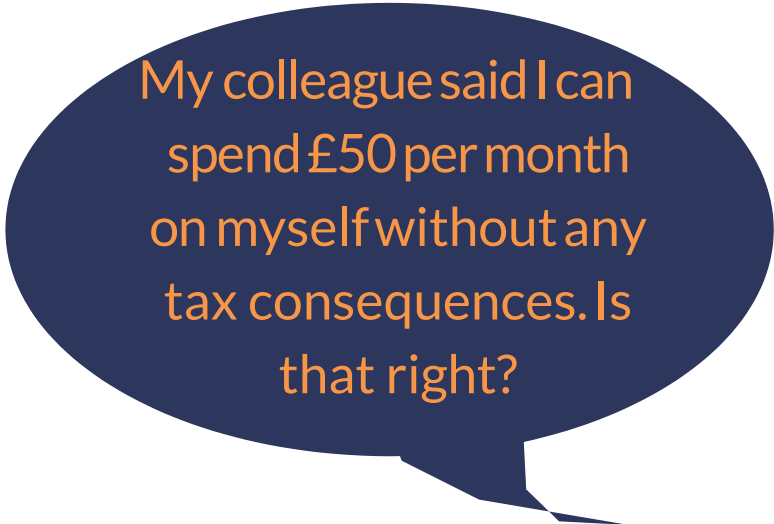
The cost of the Annual Sporting Event and Christmas Function will be covered by the £150 exemption, leaving the Annual Summer BBQ costs to be taxable.

Please note that if the Annual Summer BBQ cost up to £50 a head rather than £70 a head, then it may be covered by the Trivial Benefits exemption rules (details of which you will find below).

Employee Entertainment - VAT-registered businesses

VAT-registered businesses can recover VAT incurred on allowable staff entertaining expenditure.

Director/Employee Gifts



My colleague said I can spend £50 per month on myself without any tax consequences. Is that right?

Not exactly. What your colleague is referring to is the tax on 'trivial benefits'.

A trivial benefit is a gift or benefit given to an employee or director with a cost of no more than £50 (inclusive of VAT).

Examples of trivial benefits are a bottle of wine, chocolates or lunch. These trivial benefits do not attract tax or national insurance, so long as **all** the following apply:


- It cost you £50 or less to provide (inclusive of VAT)
- It is not cash or a cash voucher
- It is not a reward for the employee/director's work or performance
- It is not in the terms of the employee/director's contract*.

*If gifts or benefits were given on a regular basis it may be classed as part of an employee/director's contract by implication.

Tax is due on any benefits that do not meet all these criteria.

Note: The trivial benefits a director of a 'close' company (one that is run by five or fewer shareholders) can receive over the course of a tax year is capped at £300.

Customer Entertainment



Do I get tax relief on the cost of taking a customer for a meal?

Customer entertainment refers to expenses incurred when hosting free entertainment for existing or potential customers, or anyone not an employee.

Entertainment can involve eating, drinking and other hospitality such as accommodation or tickets to an event. Types of entertainment include:

- **'business entertainment' of customers** – e.g. discussing a particular business project, or forming or maintaining a business connection
- **'non-business entertainment' of customers** – e.g. entertaining a business acquaintance for social reasons.

In most cases, the cost of customer entertaining is not tax-deductible. You are not able to claim relief against taxable profits for entertaining any UK client.

However, by making sure you pay costs via your business rather than through your personal accounts, you will save the income tax you would otherwise pay on withdrawing the funds to pay the costs personally.

Customer Entertainment - VAT-registered businesses

If the function is primarily a business occasion to entertain customers and prospective customers, no VAT may be claimed even if some employees are present.

Subsistence/Client Entertaining

If you have made a business trip then your travel, food, drink and accommodation will be classed as subsistence and as they were incurred 'wholly and exclusively' for business purposes they will be an allowable tax deduction.

If you took a client out for a meal while on the business trip, in theory you could claim a tax deduction for your cost as this would still be subsistence, but the proportion of the bill relating to your client would not be allowable.

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