



Staff Entertainment

Keep the taxman out in the cold

Christmas party time

You want to reward your staff at Christmas, but what can you do without landing them a tax bill?

Most people are aware of the exemption of £150 for entertaining staff, but this must not be regarded as the budget for the office Christmas party.

The figure of £150 is an annual limit, so all social functions for staff in a tax year (e.g. 6 April 2005 to 5 April 2006) must be counted. Also, the functions will need to be open to all employees generally, or all employees at any one location (if you have more than one place of business). However, if you have a large workforce and divide your staff on a divisional basis and separate parties are organized, then the exemption should still apply (as long as all employees in that division are invited).

It is important to emphasise that exclusive parties for selected staff only (e.g. directors or senior managers) will not count in the exemption!

Calculating the cost

Each event in the year must be recorded and the cost per head calculated and the attendees' names known. This is not as simple as it sounds, as you must remember to include all costs, including: transport; food; drink; accommodation (if provided); and VAT. When working out the cost per head, don't forget to include any partners of employees who also attended. Not only is this fully permissible, but it can dramatically reduce the 'per head' figure.

Once you know your 'party history' you can select which functions are exempt from tax. Remember that the £150 is an exemption and not an allowance to offset against the total cost, so you must choose which parties to claim as exempt so that the total is less than the £150 per head. For instance, if you held three parties costing £50, £80 and £75 per head then you would nominate the £50 and £80 parties, meaning that the whole of the £75 party would be taxable.



Calculating the tax

If you go above the £150 limit you must calculate the benefit for your staff members, noting that not all might have attended each function. Using the figures below left as an example:

- If Mr. A attended all functions then his benefit would be £75.
- If Mrs. B attended the second and third parties then she would be taxable on the same £75.
- If Mr. C brought his wife to all three parties then the first two parties would still remain exempt (as the cost per head was under the £150 limit), but his benefit would be £150 as he would be taxable on the non-exempt party for both his attendance and his wife's – however strange this might seem given that he has had a double benefit out of the first two parties, but the 'cost per head' calculation keeps those events within the exemption.

Barnes Roffe Topical Tips

- Any employees earning less than £8,500 per annum are not taxable on this benefit.
- You can enter into a PAYE Settlement Arrangement (a 'PSA') to settle the tax on any benefit taxable on employees, but this must be done by 6 July following the tax year for which the payments were made and the PAYE and Class 1B National Insurance paid by 19 October following the end of the tax year.
- Beware, the Inspector of Taxes is unlikely to consider that any staff gifts are tax free - if you regularly provide such gifts consider putting them in your PSA (see above).

Consult your Barnes Roffe LLP contact partner for further guidance on this important topic.