

PARTY TIME !

(Or as HMRC describes it EIM21690- Particular benefits: annual parties and other social functions)

The so-called Festive Season is now upon us, so we thought it was a good time to refresh the rules on the parties which are normally held around this time of year. Having a party is not obligatory, but, even in these troubled economic times, apparently some employers still throw parties for their staff.

Over the years, HMRC has not been blessed with a great deal of seasonal spirit, and as a result, the tax rules surrounding Annual parties and gifts are fairly complex and in some ways a bit miserly. If an employer overspends on the Annual party not only is tax relief denied for the company, the employees will also have to pay personal tax on the cost of the party (including VAT). So it is really worth paying attention to the rules.

However, since the limit is £150 per head attending an event, it is puzzling to us humble accountants as to just how that limit could ever be exceeded.

NOW FOR THE BORING STUFF - STAFF PARTY FACTS

(HMRC EIM21690 Section 264 ITEPA 2003)

If an employer provides an annual function for ALL employees (not subcontractors), no charge to tax arises if the cost of the event, per head, does not exceed £150. This means that your business gets tax relief on the cost and there is no Benefit-In-Kind tax or National Insurance payable by your employees.

Don't forget that directors and secretaries are legally employees of a company. So even if you run a "one man band" type of company, the relief is still available. **Please note that this tax relief is not available to sole traders or partners in partnerships**, only the employees of such businesses.

The relief only applies to employees: it does not extend to suppliers or customers. Any such expenditure on non-employees is simply entertainment and is not tax deductible.

Calculation: the cost of the function, including VAT and the cost of transport and/or overnight accommodation, if provided to enable the employee to attend, divided by the total number of people (including non-employees) who attend, should be less than £150.

Example: If there are 10 employees and they all come to the Christmas party, with a partner, you could spend up to £3,000 without tax being an issue.

VAT: is reclaimable if paid, but only on the amount spent on members of staff. In the above example, VAT would be reclaimable (if paid) on £1,500 of the total.

Not an Allowance: the maximum allowable is £150 (including VAT) per head – if you spend over this amount the FULL amount of the cost of the function would be chargeable to Tax and National Insurance.

Important Note: the calculation is based on the number who attend, not the number who are invited or expected. Be warned, if the event is paid for in advance and several people fail to turn up, the amount per head could exceed the £150 limit.

All Staff Must be Invited: but they do not all have to attend. However, if any employees, or group of employees, are excluded the costs will be a taxable benefit regardless of the amount spent per head.

Two or More Functions per annum: no charge arises if the cost(s) per head do not exceed £150 in aggregate. The cost per head should be calculated for each function, if the total cost exceeds the £150 then whichever function(s) best utilise the £150 are exempt, the others are taxable on the employee.

Bizarre Rule: only Annual Events qualify – in a recent case HMRC sought tax on an event that was within the £150 limit but was to celebrate the company's 40th birthday!

Seasonal Gifts to Staff: traditionally HMRC have ignored trivial gifts to employees, which are not rewards for employment, and are not cash or exchangeable for cash, such as those you might wish to give your staff for Christmas. HMRC steadfastly refuse to attach a monetary value to "trivial", however its current interpretation is that a turkey, wine or similar small gift can be given without being treated as a taxable benefit.

WARNING: it is not a good idea to give staff gifts during the staff function unless you are sure they will not bring the cost per head above the £150 limit! If you give them during the function they are not ignored under the triviality rule.

We think that a tin of toffees, an orange and some nuts is perfectly adequate and well within the permitted allowance.

If you are in any doubt, please call us for clarification.

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