

# Staff Entertaining

**Entertainment is defined as the provision of hospitality of any kind that may be provided to staff and customers. The corporation and income tax treatment of staff entertaining is usually dependent on the costs incurred by the business and the type of entertaining undertaken.**

Employees and directors of a business are defined as staff for entertaining purposes, although certain individuals such as retired employees may also be treated as staff in limited circumstances.

## Corporation Tax Position

Staff entertaining is allowable as a deduction against profits as long as it is wholly and exclusively for the purposes of the trade and not incidental to entertainment which is primarily provided for clients. If an employer provides entertainment intended to benefit the employees, the expenditure is seen to be wholly for business purposes and the cost and VAT can be recovered in full.

The costs of client or customer entertaining cannot be deducted for corporation tax purposes. The costs may still be settled by the company, but no tax relief can be obtained.

Similarly, where the entertainment of a member of staff is incidental to the entertainment of clients e.g. a staff member meets with a client and incurs entertaining expenditure, the cost will not attract corporation tax relief.

There is no tax relief if an event is solely for directors and their families (unless the company is a family company and they are the only employees).

## Employee tax position

### Benefits in kind

The provision of an annual event or function for staff will not give rise to a taxable benefit on the employees as long as the following conditions are met:

- The cost of the event does not exceed £150 (including VAT) per head, per year, and
- The event must be open for all staff to attend.

The exemption is all or nothing, so if the cost per head of one event exceeds £150 then the entire cost will be taxable on the employee – not just the amount exceeding £150. Where there is more than one event in the year and the total cost per head exceeds £150, the exemption should be used in the most beneficial way.

Where there is a taxable benefit, this would usually be included on the form P11D and Class 1A national insurance at 13.8% will be due by the employer. The employees would be required to pay income tax at their marginal rate on the benefit.

If employees are required to entertain clients as part of their job, there is no taxable benefit on those members of staff when they attend events to entertain clients. In addition, if the employee attends a third-party event and there is no element of reward in respect of the employee's services performed, then there will be no taxable benefit.

## Employee tax position

Many employers will not want their staff to suffer income tax on entertaining benefits that they receive. A PAYE Settlement Agreement (PSA) is a flexible solution to dealing with this issue.

The PSA is a statutory arrangement between the employer and HMRC. Essentially, by obtaining agreement from HMRC, an employer can settle the income tax and national insurance liabilities arising on any taxable entertaining benefits, relieving the employees of these liabilities.

The agreement is designed to cover benefits such as gift vouchers or staff functions in excess of the relevant exemption(s). Cash payments, large benefits such as company cars and round sum allowances cannot be included.

Any PSA must be agreed before 6 July following the end of the tax year and tax/NIC should be calculated and shown on the form PSA1 which needs to be submitted to HMRC by 19 October. The due date for the payment of tax is also 19 October, or 22 October if paid electronically.

## Tax free benefits

Employers can incentivise staff by providing benefits which are exempt from tax and national insurance. The following are a few suggestions of non-taxable benefits which do not need to be reported on a form P11D or a tax return:

- Employer pension contributions
- The provision of one mobile phone – a mobile phone can be made available to each employee but the employer must pay the network provider directly and the contract must be in the company name. There is no personal use restriction.
- Workplace parking - a space in the employer's car park or the costs of a season ticket at a nearby public car park.
- Staff canteens - subsidised staff canteens are exempt from income tax and national insurance as long as the facilities are available to all employees.
- Awards - long service awards of up to £50 per year of service can be provided to the employee free of income tax and national insurance. The employee must have worked for the employer for at least 20 years and the award cannot be in cash form.

- Trivial benefits – a benefit such as a voucher or non-monetary gift may be provided as long as the cost does not exceed £50 per item. The benefit cannot be awarded as a form of recognition for services performed. Restrictions apply for directors but there is no limit to the number of trivial benefits that can be provided to employees.
- Eye tests - one eye test per year can be provided where the employee is required to use a computer monitor in their employment.
- Medical check-up - one health screening and one medical check-up per year can be provided.
- Welfare counselling - must be made available to all staff. For guidance on the types of counselling which qualify, please get in touch.

These benefits are subject to certain rules and conditions. If you would like further information on any of the above, or any other tax-free benefits that you are considering implementing, please do not hesitate to get in touch.

For more information, contact your client manager or the tax team at [p11d@monahans.co.uk](mailto:p11d@monahans.co.uk)

