



Don't let the taxman spoil your Christmas Party!



I have heard that there may be tax implications if I pay for a Christmas party for my staff?

There is a tax exemption available for throwing a Christmas party, however it is limited. The relief applies only to the cost of annual parties up to £150 per head, including VAT.

If the cost of qualifying parties goes over £150 per head, then unfortunately **all** the costs (not just those above £150 per head) are taxable as a benefit in kind on your employees.

It is important to note that the cost of the party includes all costs from the start of the night to the end and can include:

- Taxis home
- Any overnight accommodation
- All those attending the party, including employee guests.

If the limit is exceeded the benefit must be reported on each employee's P11D, or alternatively, the grossed up tax can be paid by the employer through a PAYE settlement agreement (PSA). This could mean that a total cost per head of £160 could lead to an additional tax and national insurance bill of a further £140 per person.

Can I reclaim the VAT incurred on a Christmas Party?

VAT

Generally input tax on entertaining is not recoverable, however VAT on employee entertaining is.

However, if your party includes guests as well as staff you will need to apportion the relevant costs appropriately for VAT.

Where entertainment is provided only for directors, partners or sole proprietors, HMRC do not accept that the input tax has been incurred for business purposes. However, where directors etc. attend parties along with other staff members, then the VAT on the cost of them attending is allowed.

What about Christmas gifts to the employees?

Christmas presents paid in cash or vouchers to employees will always be taxable along with other earnings.

If employees are given a small or "trivial" presents, such as a box of chocolates or a bottle of wine, as long as the cost is less than £50, HM Revenue & Customs won't seek to tax it.

If the value of the gift is more than £50, it will be taxable in full and should be included on the employee's P11D, or as part of a PSA, as detailed above.