

# PEARSON MAY

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Originated 1841

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## Taxation implications of staff parties

**Many employers wish to incentivise employees by helping them with child care costs. As a general rule the taxation and national insurance position would be that such costs met by an employer would be treated as a benefit in kind and would thus be subject to both Income Tax and National Insurance.**

At this time of year, employers need to consider various aspects relating to the staff parties which have taken place or which are still to take place and there are a number of points which have to be taken into account:-

### VAT

It is not necessarily the case that all of the VAT incurred on a staff party can be reclaimed. Generally speaking, VAT associated with entertainment, particularly of clients/customers is not claimable, however that incurred on entertainment of employees, that is not just limited to directors, partners or sole proprietors, can generally be reclaimed. However, there was one interesting case a few years ago which produced a precedent which decided that it is only that element of the costs relating to employees which can be claimed, and if each employee is allowed to bring his or her partner, then the VAT associated with the cost for the additional guests cannot be reclaimed. A list of attendees has to be kept with clear references to who are employees and who are not.

### Income Tax

The next issue which employers have to consider is whether any reference to the staff party has to be included in any Forms P11D to create taxable benefits-in-kind for any of the employees who attend.

The basic answer is that there is an exemption from both Income Tax and National Insurance for any party or similar function for employees that meets three conditions as follows:

- 1) It is an annual event such as a Christmas party or summer barbecue.
- 2) The event is open to all of your employees at that location.
- 3) That the cost per head of the event isn't more than £150.

The latter point about the £150 figure needs further explanation. This is not an allowance that can be offset against the cost of more expensive events, but it is an annual sum to cover the cost of all qualifying events put on in the year for staff. A summer event at a cost of £50 per head and a Christmas event at a cost of £75 per head are normally acceptable therefore.

Furthermore, the £150 is per head per attendee and thus if an employee plus his or her partner attends, then it is a limit of £150 for each of them, even though only one is an employee of the business concerned.

The meaning of "open to all of your employees" also needs some further explanation as it covers all staff at one location as I have indicated above, but also if the workforce is organised into separate departments, then separate parties held for each department can also qualify for the exemption, as long as each of the employees will be entitled to attend one of the events.

The above is another example of some of the ridiculous complications which have crept into the tax system over the last 15 years. Why on earth the same rules cannot be used for all taxes, I fail to understand, but probably that is applying a logical commercial mind to an issue dealt with by officialdom!

*The above is for general guidance only and no action should be taken without obtaining specific advice ■*

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