



As the festive season approaches, many employers look to host Christmas parties to show appreciation for their staff. In the UK, there are specific tax exemptions that allow businesses to provide annual social events, like Christmas parties, without incurring additional tax liabilities for either the employer or the employees.

Key conditions for a tax-free staff party

To ensure that the cost of a staff Christmas party is exempt from income tax and National Insurance contributions (NICs), the following criteria must be met:

1. **Annual Event:** The function must be an annual occurrence, such as a Christmas party or summer barbecue. One-off events, like a celebration for a company's milestone anniversary, do not qualify for this exemption.
2. **Open to All Employees:** The event should be open to all employees. If your business operates across multiple locations or has distinct departments, it's acceptable to hold separate events for each, provided that every employee has the opportunity to attend at least one of them.
3. **Cost Per Head:** The total cost per attendee must not exceed £150, inclusive of VAT. This amount covers all expenses related to the event, such as food, drink, entertainment, transportation, and accommodation.

Calculating the Cost Per Head

To determine the cost per head:

- Total Expenses: Sum all costs associated with the event, including VAT.
- Number of Attendees: Count all individuals present, both employees and their guests.
- Calculation: Divide the total expenses by the number of attendees to arrive at the cost per head.

For example, if the total event cost is £3,000 and there are 20 attendees (employees and guests combined), the cost per head would be £150.

Multiple events within the same year

You can host multiple annual events, and the exemption can apply to more than one, provided the combined cost per head does not exceed £150. If the combined cost surpasses this threshold, the exemption can be applied to the event(s) that best use the £150 limit, with any additional events being taxable.

Implications of exceeding the £150 limit

It's crucial to understand that the £150 per head is an exemption, not an allowance. This means that if the cost per head exceeds £150, even by a small margin, the entire amount becomes taxable, not just the excess. In such cases, the benefit must be reported on each employee's form P11D, and both income tax and Class 1A NICs would be applicable. Alternatively, employers can opt to settle the tax through a PAYE Settlement Agreement (PSA), thereby covering the tax on behalf of the employees.

VAT considerations

For VAT purposes, input tax on employee entertaining is generally recoverable. However, if guests (such as spouses or partners) are invited, the VAT reclaimable should be apportioned accordingly, as the definition of employees for VAT purposes does not include guests. Additionally, if an event is provided solely for directors or partners, HMRC may not accept that input tax has been incurred for business purposes.

Tax deductibility of costs

The expenses incurred for staff Christmas parties are generally tax-deductible for the business, as they are considered a cost of employee welfare. This is distinct from client entertaining, which is typically not an allowable expense for corporation tax purposes.

Gifts to employees

If you're considering giving gifts to employees in addition to or instead of a Christmas party, certain gifts may qualify as 'trivial benefits' and be exempt from tax. To qualify, the gift must:

- Cost £50 or less per employee.
- Not be cash or a cash voucher.
- Not be a reward for work or performance.
- Not be provided under a salary sacrifice arrangement.

If these conditions are met, the gift is exempt from tax and NICs, and there's no need to report it to HMRC. However, if the cost exceeds £50, the entire amount becomes taxable.

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Conclusion

By adhering to the specified conditions, you can host a tax-free Christmas party for your staff, enhancing morale without incurring additional tax liabilities. It's essential to meticulously calculate the cost per head and ensure that the event is inclusive and annual to fully benefit from the available tax exemptions.

We can help

Please call us on **01753 888 211** or email **info@nhllp.com** if you would like to discuss any of the issues raised in this Broadcast, we would be happy to help.