

# Annual Event

## & Entertaining

This factsheet is designed to explain the rules that make an Annual Event an allowable expense with no benefit in kind on the attendees along with what can and can't be paid for as business entertaining.

### Annual Event

An annual event, commonly a Christmas Party, is an allowable expense for the company and is treated as a tax free benefit for the employees providing you meet the following conditions:

- The total cost must not exceed £150 (inc VAT) per head - if the cost is just 1p over then the whole cost will be subject to tax and NIC, not just the amount over £150
- The event must be open to all staff, although in reality that will just be you!
- Partners may be invited, but if partners are invited, all staff must be entitled to invite a partner - invited partners will count for the £150 per head allowance.

Generally it would be advisable to limit the annual event to one a year (most clients hold this at Christmas) so that you can easily determine the total cost to ensure it is below the £150 per head and it is easier to justify as an annual event. If you are not on the Flat Rate VAT scheme, VAT may only be reclaimed on the portion relating to employees i.e. the VAT relating to invited partners may not be reclaimed.

However, you can hold more than one annual event and provided the total cost of all these annual events does not exceed the £150 per head allowance no taxable benefit will arise. If you are holding multiple annual events you need to be able to justify to HMRC (if questioned) that they are truly annual events i.e. a summer barbeque, a winter ball etc. rather than just a night out for your employees every now and then.

### Business Entertaining

Business entertaining is not an allowable expense for corporation tax purposes so, whilst you can claim for any such entertaining through the company, the cost will be disregarded when calculating the taxable profits of your company (see our corporation tax factsheet for further details).

From the owner manager point of view, even though no corporation tax relief is received, it is still better for the company to pay for business entertaining (this includes reimbursing you for business entertaining) compared to you suffering the costs personally and not being reimbursed because you are not paying for the entertaining out of taxed income i.e. net pay of dividends.

When considering business entertaining you should be happy that the costs involved are justifiable as a business expense even though no corporation tax relief is received. This would be in terms of the costs involved being justifiable compared to the expected benefits the company will receive.

It would seem un-reasonable for you to spend £5,000 on a box for the day at Old Trafford for a potential customer if it would only generate a few hundred pounds of income. In this case HMRC may deem there to be a personal benefit and tax you (the employee) accordingly. Compare this to spending £50 on a few drinks after work on the last day at your clients site which could help generate a 3 or 6 month contract in the future, clearly this would be ok as business entertaining.

Gifts to customers are also not an allowable cost and would be treated as entertainment expenses unless they meet the following conditions:

- The gift costs less than £50
- The gift must bear a conspicuous advert for your company
- The gift cannot be food, drink, tobacco or vouchers.



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