

# A tax efficient Christmas?



As we are rapidly approaching the festive season some may be thinking about staff parties or Christmas gifts for your staff or customers. In these times of recession many employers are cutting back, but if you are going to spend money you need to know you are doing it in the most tax efficient way.

Read below for our brief guidance, but please contact us for full details.

## **Christmas Parties**

If you are hosting an annual staff party this year then you may be able to do it in a tax efficient way. There are numerous rules to follow, but basically the party must be:

1. Annual. Not a one off, but a customary once a year party.
2. For all employees and directors. It can be segregated by location where you have two offices for example, but not for one section of the workforce only, or for only directors.
3. The total cost of the function including travel, accommodation, and VAT must be under £150 per person attending.

If you can say yes to all then go ahead - there will be no tax or NI to pay by the employee and the cost is tax deductible for the business. You can reclaim all of the VAT applicable to your employees' share of the costs; disallowing that apportioned to spouses/partners.

But what if you hold more than one annual party? If altogether you have spent less than £150 per head per annum then that's fine. However, if more then you will need to choose which event(s) falling below the £150 limit you are claiming as exempt and which you are going to declare as taxable (on all your employees who attended that event, as a benefit in kind on the full cost, not just the excess over £150). The benefit in kind also gives rise to a Class 1a National Insurance charge on the employer

*So beware—1p over £150 per head and the costs are huge!*

## **Gifts—Choose wisely**

Many gifts are not tax deductible whether to staff, customers or suppliers. There are a couple of exceptions to this:

- promotional materials (calendars, pens etc)
- small "trivial" Christmas gifts to staff such as a turkey, bottle of wine or chocolates (totalling less than £50) which are also exempt as a benefit in kind.



All cash gifts to staff are taxable and should go through the payroll (and therefore also attract NI). Vouchers are in general taxable too, but advice should be taken on the tax treatment as it will depend on the type of voucher.

You can recover the VAT on all business gifts, but if it is worth over £50 you will also have to declare output VAT on the gift.