

# How to get the best return on staff entertaining

Staff gifts and entertaining are a common problem area for businesses with many failing to appreciate what is taxable and what is not.

Having identified the exemptions available, the next logical step is to consider how to make best use of these to ensure you get the best possible return on investment in staff treats by asking yourself - are we making the best use of the budget? Key to this is whether a gold standard big expensive one-off bash generates the best return in terms of staff appreciation and goodwill, or whether it would be to hold smaller more frequent events.

With this in mind, let's consider the exemptions available to employers.

## £150 exemption

Most employers are aware of this and it is often referred to as the Christmas Party exemption. There are conditions linked to this exemption though and this is a fact often overlooked with expensive implications for the business:

The £150 per attendee exemption is an annual cumulative maximum, not per event.

The event must be open to all staff at the location, so everyone must be invited although some may choose not to attend.

This must be an annual event and therefore a one-off event in March will not be within the scope of this.

If there are several events that meet the annual event open to all staff tests, but they exceed £150 per head in total, the business can choose which events it wants to claim the exemption against.

The next error some businesses make is not appreciating that it is an exemption not an allowance, so each event will either be fully exempt, or fully taxable. Buying that last extra round of drinks may seem the "nice" thing to do at the time, but the cost can be disproportionately high if it turns a qualifying event into a taxable one.

## Trivial benefits

This exemption is for smaller events and gifts up to £50 per head per gift. Trivial benefits is less restrictive than the annual events exemption because there is no requirement for this to be either annual, or open to all. The difficulty is that it cannot be a reward for work. Therefore celebrating birthdays, births, marriage, general social events, etc. should be fine, but celebrating client wins or exceeding sales targets is inappropriate.

## Food at the office

Reasonable costs for food are tax-free as long as the food is available to all. Therefore breakfast in the office available to everyone should be fine, but departmental working lunches are potentially a problem. It is the availability of food, not the reason for the meeting that is important.

## Long service awards

There are no tax reliefs available for long service unless the employee has been with the business for at least 20 years. This often comes as a surprise to businesses that like to recognise long service earlier than this.

## PAYE Settlement Agreement (PSA)

The next question to consider is what happens when expenditure is outside of the available exemptions. The default position is that the taxable amount will be reportable on a P11D and the individual will pay tax on this. Clearly this has the potential to undermine the goodwill generated by the actual treat and businesses will want to avoid this by entering into a PSA with HMRC so the business, not the individual suffers the tax charge. A PSA works on the basis of grossing up the liability so is really expensive and should not be regarded as a tax efficient solution.

## Conclusion

Employers should decide their budget for staff gifts and entertaining and then evaluate the best way to spend this budget, taking into how staff goodwill is best generated, the exemptions available and the tax costs associated with the spend.

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