



Tax and your work Christmas party

A guide for clients

How to reward your team in a tax-efficient way.

As 2023 draws to a close, many employers will be looking for ways to reward their teams' hard work. But how can you do that in a tax-efficient way that benefits both you and your employees?

Thankfully, showing your appreciation doesn't need to cost the earth. In most cases, work Christmas parties and gifts for staff members are tax-deductible.

However, it's essential to understand the tax rules surrounding annual events and gift-giving. Overspending on festivities won't just eat into your bottom line; it can also have tax implications for your employees.

In this guide, we'll help demystify the tax treatment of your end-of-year celebrations.

The tax treatment of work Christmas parties

Limited companies can often claim the cost of staff Christmas parties as an allowable expense. That means you can celebrate with your employees, boost morale and minimise your corporation tax bill all at once.

However, some functions may be treated as a taxable benefit for employees who attend. To understand the tax treatment of your staff Christmas party, you'll need to consider the following:

How much did it cost?

Ideally, your Christmas party should not cost more than £150 per head, including VAT. Exceeding this threshold may impact any attending employees (including yourself), as the entire cost of the event will be treated as a benefit-in-kind (BIK) for tax purposes. In many cases, they'll need to pay more income tax as a result. If this happens, you must report the cost to HMRC and pay employers' Class 1A National Insurance contributions (NICs) on the total.

Suppose you spend £7,000 on a Christmas party for 40 people, meaning the cost per head is £175. As this exceeds the £150 allowance, the event will count as a taxable benefit, which means all attending staff members must pay income tax on the total £175, not just the £25 excess. You'll need to report this on each employee's P11D form at the end of the tax year.

Closely monitoring your spending is therefore essential if you want to keep your employees happy.

Who did you invite?

Be careful when planning events exclusively for directors or a specific department in your company. Unless the party is made available for all employees, attendees must pay tax on the cost.

Entertaining non-employees

The £150-per-head rule applies to all attendees – not just staff members. That means if you invite your employees' spouses or partners to the function, they'll get their own £150 limit.

However, the exemption only applies to entertainment for employees and their partners or family members. That means any events you hold for clients will not qualify for corporation tax relief.

You should also be cautious when inviting contractors or subcontractors to your work Christmas party, as this could affect their employment status.

Is it a recurring event?

Most costs associated with entertaining staff will qualify as a business expense – but don't get caught out. Unless your party is a recurring annual event, it will typically attract a taxable benefit on any employees attending.

In many cases, that means that if you take an employee out for lunch, they should technically pay tax on the cost of that meal.

How many annual events do you hold?

Many businesses have more than one recurring event each year. For example, if you hold both a summer party and a Christmas party, you'll need to split the £150-per-head limit between the two functions. If the combined cost of these events exceeds £150, only one function will be exempt for tax purposes. As a result, any members of staff who attend the non-exempt event could face a higher income tax bill.

VAT

As mentioned above, you'll need to include VAT when working out the cost-per-attendee. However, VAT-registered businesses may also be able to claim a VAT refund on goods and services purchased for the event.

Be aware that claiming a VAT refund may be more complicated if partners and family members of your employees also attend the event.

Giving gifts to your employees

It's not just annual events that are tax deductible; small gifts to employees are usually exempt. That means you can deduct the cost from your taxable profits, and employees won't usually incur an income tax charge – so long as the gifts meet certain conditions:

- The cost of the gift does not exceed £50. Small gifts to employees costing £50 or less are treated as a 'trivial' benefit. Spend any more than this, and the entire value of the gift will count as a taxable benefit – not just the excess over £50.*
- The benefit is not cash or a cash voucher. While non-cash vouchers and store gift cards under £50 can be classed as trivial, employers should avoid giving cash or non-cash vouchers as gifts.*
- Entitlement to the gift is not in the employee's contract. This includes any salary sacrifice arrangements.*
- The benefit is not rewarding a specific service. Certain gifts may not be tax-free if you provide them to an employee in recognition of a particular service. Different tax rules apply for long-service awards.*

The rules will also vary for limited companies privately owned by five or fewer individuals (also known as 'close' companies). Any qualifying trivial benefits provided to directors of close companies, other office holders, and their families are subject to an annual £300 cap.

What happens if I overspend?

Don't panic if you overspend on Christmas festivities or inadvertently provide a taxable benefit to your employees; you may be able to set up a PAYE settlement agreement (PSA) with HMRC.

A PSA allows employers to pay tax on certain benefits on an employee's behalf, so they don't need to foot the bill themselves. These arrangements can also significantly reduce your administrative burden.

If you don't already have a PSA in place for the 2023/24 tax year, you must apply for an arrangement by 5 July 2024.

Helping you navigate the rules

As an employer, you'll understand the importance of keeping your team's spirits high. Rewarding the people who help move your business forward can contribute to a positive working environment, boosting morale and increasing productivity levels as a result. Employees who feel appreciated are also more likely to stay in your business longer.

If you're planning to throw a staff Christmas party or surprise your team with gifts, a financial adviser can help you easily navigate the potential tax implications. With our support, you'll be able to keep your celebrations as tax-efficient as possible.

Get in touch with us today to discuss your end-of-year festivities.

FOR GENERAL INFORMATION ONLY

Please note that this guide is not intended to give specific technical advice and it should not be construed as doing so. It is designed to alert clients to some of the issues. It is not intended to give exhaustive coverage of the topic.

Professional advice should always be sought before action is either taken or refrained from as a result of information contained herein.

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