

Festivities – Let’s celebrate!

(Lecture P1163 - 15.01 minutes)

Many employers celebrate festive dates with employees by organising company events or making gifts to their employees. In this article we consider what tax and national insurance will be due and whether there is anything that employers can do to make these tax free.

Taxable party or gift

If the event is taxable then the taxable amount will need to be reported on the employees’ P11Ds as well as tax becoming payable by the employee, collected by amending their PAYE code. In addition, the employer will need to account for Class 1A NIC on the benefit and reported on the P11D(b) form.

To avoid the employee suffering the tax bill, the employer can agree to pay the tax due by including the amount in their PAYE settlement agreement. The employer then becomes responsible for paying the tax at each employee’s marginal rate of tax as well as the employers’ Class 1B NIC due, calculated on the tax inclusive benefit, at a rate of 13.8%.

Annual social functions

Under s264 ITEPA 2003, social events can be tax-free provided the following conditions are satisfied:

- The event is an annual party/parties for employees that happens on a recurring basis:
 - A one off event would not qualify;
 - Director only events do not qualify;
 - Available to all employees/ employees at one site if business has several;
- The cost of all events must not exceed £150 per head attending. If the total cost is greater than £150, you need to look at each event to see which is taxable

The £150 covers a number of things including:

- VAT;
- Free bar before the event;
- The dinner and any entertainment;
- Gifts given at the event;
- Free bar after the event;
- Transport to and from the venue;
- Overnight accommodation.

Example 1

An employer has two annual events. The Christmas party costs £100 per head and the summer BBQ that costs £45 per head.

As the total is below the £150 limit, both events are tax free.

Example 2

An employer has two annual functions. The first costs £130 and the second £50 per head.

The first falls within the “annual parties” exemption but the second takes the total over £150 limit and is taxable. The employees P11D would show £50 as a taxable benefit, or £100 if they took a partner. If they only attended the first event, there is no taxable benefit. Somewhat bizarrely, for any employee that only attended the second event, there would be a taxable benefit £50

Trivial benefits

Where there is a taxable amount on the second event, it worth checking to see whether this could be tax free as a trivial benefit.

A benefit is trivial if:

- It costs the employer £50 or less to provide (including VAT);
- It is NOT paid in cash or a voucher exchangeable for cash;
- It is NOT a reward for services, employment or performance;
- It is not in the contract of employment.

Example 3

An employer has two annual functions. The first cost £130 and is covered by the annual events exemption. The second costs £45 per head and takes the total over £150 and so cannot be treated as tax free as a second annual event. However, it does satisfy the conditions to be an exempt trivial benefit.

The trivial exemption could also apply if the employer decides to gift a hamper, wine or store vouchers that cost less than £50.

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