

Entertaining for corporation tax (Lecture B1453 – 15.30 minutes)

The Paris Olympics 2024 saw a considerable amount of corporate entertainment and may pose some challenges in terms of accounting for the entertainment costs. This article looks at some of the more unusual aspects when considering corporation tax computations.

Many years ago, entertainment was allowable for entertaining foreign customers. The perception was that this relief was being overused. However, there are still some opportunities for reducing the corporate tax cost.

The Paris Olympics indicates both some of the opportunities and the pitfalls.

The fact that the entertainment is taking place abroad does not of itself change the tax status of the entertainment costs. However, for a multinational with a considerable number of subsidiaries it is important from both accounting for the entertainment and potentially in terms of transfer pricing compliance that the costs are properly charged to the correct entities which may include overseas subsidiaries who have may have a more generous regime in terms of setting those costs against their corporate tax liabilities.

It is therefore important to determine the main purpose of the entertainment. Would it have gone ahead if there were no outside customers or suppliers. Was its primary purpose staff or business entertainment? One should remember that staff entertainment is generally deductible for business purposes whereas client/supplier entertainment is not. There is also the potentially difficult position for Owner Managed Businesses where the entertainment is neither for staff nor business contacts but is for relatives. It is potentially non-deductible for corporation tax purposes and there may be a benefit in kind charge as well.

One needs to also ensure that incidental expenses, such as for example, the travel and subsistence and hotel costs as well as incidentals such as programmes, drinks etc are included in the entertainment costs.

One factor which could create tax deductions is if the entertainment is part of an International meeting such as a conference or strategy meeting where costs can be apportioned. However, HMRC will often wish to see proof of the business activities including an agenda and, if there was a meeting of the management or directors, minutes of what was decided.

Even in an activity which may qualify for a tax deduction there may be elements which are taxable. For example, a dinner held abroad could be considered as subsistence if it is part of a conference, training session, strategic meeting etc. but when everyone retires to the bar that would be entertainment pure and simple.

Given that some of the reporting of costs arising from the Olympics will not be due until next year it is important to analyse these as soon as possible in order to ensure the correct adjustments are done before everyone forgets what happened.

Contributed by Jeremy Mindell