

## The Office Christmas Party

The last eighteen months have been challenging and stressful to say the least. If, and it's a big if, COVID infection is contained this winter, we can look forward to being able to celebrate with family and friends during the festive break. It can also be a great time to treat staff for their hard work throughout the year and socialise with colleagues out of the work environment.

A Christmas party or any annual staff function, such as a Summer BBQ, can qualify as a tax-free benefit for employees. However, as always, there are rules to follow:

Firstly, the event must be available to all staff in the business, or for example, all employees in a particular department, being held separately from the other departments. Not all staff have to attend, but they should all be invited, not just specific employees or directors only (unless all the staff are directors). Additional guests, such as family members or clients can be invited but the primary purpose of the event should be to entertain employees. The costs of the additional guests must also be included in the overall total.

Secondly, the average overall cost per head must not exceed the £150 limit (including VAT) to make it tax deductible. All costs paid for by the business must be taken into consideration, such as transport to and from the event and accommodation as well as food, drinks, prizes, room hire and so on. The total cost of the event can then be divided by the total number of people attending in order to find out the average cost per person.

It is not classed as an allowance, so if the cost exceeds £150 per head then all of the cost, not just the amount above becomes a benefit in kind which must be reported on the employee's P11D, or alternatively the employer can agree a PAYE Settlement Agreement with HMRC. For example, if the average cost per head is £165, then the whole £165 is treated as a benefit, not just the £15 extra above the £150.

As long as the annual £150 limit is not exceeded then there can be any number of events to entertain staff included. However, if for instance the business held a Summer BBQ at a cost of £40 per head and a Christmas party at £115 per head, then the £150 limit could be used for the Christmas party, leaving the Summer BBQ as a fully taxable benefit, rather than adding the two costs together and therefore exceeding the £150 limit.



Thirdly, if the guests of staff are also invited to the event the input tax should be apportioned, as the VAT applicable to non-staff is not recoverable. However, if non-staff members pay a reasonable contribution to the event, all the VAT can be reclaimed, and output tax should be accounted for on the amount of the contribution.

If you have any questions or queries regarding this topic, please seek advice from your accountant.

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