

Christmas gifts for your staff

Business owners who would like to celebrate the forthcoming Christmas break with their staff are reminded that there is a tax-free allowance for the provision of an annual party or other event for the benefit of staff and their partners. The present limit to tax relief is £150 per head. If this amount is exceeded, the full cost of the benefit is taxable not just the excess over £150.

Where it is not possible to calculate individual costs, an averaging process can be adopted. There are also other considerations that must be met to qualify for this relief.

Another way to benefit staff tax-free for Christmas is to consider making small gifts.

You don't have to pay tax on a benefit (gift) to your employee if all the following criteria apply:

- it cost you £50 or less to provide
- it isn't cash or a cash voucher
- it isn't a reward for their work or performance
- it isn't in the terms of their contract

Gifts that fall into this category are known as a 'trivial benefit'; and whilst they may be much more than trivial in substance, you don't need to pay tax or National Insurance or let HMRC know you are making the gift. Any gifts that do not meet this definition are likely to be taxable.

Gifts to directors are treated in a similar fashion with one over-riding condition: a director cannot receive trivial gifts of more than £300 in total each tax year. This restriction only applies to the directors of "close companies". A close company is a limited company with five or fewer shareholders.



Watch out for VAT charge

If you recover the input tax charged when you buy gifts for employees, and if the total value of gifts given to an employee in a tax year exceeds £50, then you will have to account for VAT on the total value of gifts provided. If this is the case, you may be advised to avoid recovering the VAT in the first place.

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