

Entertainment v Subsistence



The tax treatment for travel and subsistence can become incredibly complicated.



Firstly, you must consider if the individual incurring the costs are employed by the UK entity.

If they are not a UK employee –the expense is classed as business entertainment.

Business entertaining

- Basically not allowable expense in any shape or form by HMRC.
- Not a deductible expense for corporate income tax
- Not a deductible expense for VAT
- Overseas employees who come to visit – if they are not employees or Directors of the UK company so this is not an allowable deduction by the UK company.
- If you entertain someone who is not an employee who is from overseas, you may recover a portion of the VAT.
- Even though it is not allowable as a cost, it should be noted that it is better that it goes through the business, rather than paid personally, where you would have suffered income tax to earn the money to pay for it. You may not get a business deduction, but it is allowable the business pays for it and it is not considered income or a benefit provided it is “reasonable”.
- Be mindful of the bribery act, and your duty to not spend too much on entertainment and it deemed a bribe.

Travel and subsistence

Allowable expense for an employee while they are performing the duties of their employment.

- E.G. if you send an employee to work at a client’s premises for the day and they have to stay overnight because of the distance.
- There is no formal limit on the costs, it just has to be “reasonable”, so you can set your own policy in terms of what kind of accommodation employees may use on business trips. but your policy should be consistent across all staff.
- This category of expense is fully tax deductible and the VAT is recoverable.

- It is not a taxable benefit for the employee in question unless you provide a per diem cost in excess of HMRC's overnight allowance.
- If an employee entertained a client, this would also be a tax free expense for the employee however, the cost of the client entertaining would be added back for corporation tax purposes as a disallowable expense.
- HMRC publish benchmark scale rates that they will accept as being allowable costs. <https://www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim05231>

Staff entertainment

- For staff to enjoy social time as a reward/ team building exercise this would include Christmas parties, drinks after work and parties to mark important events, such as an employee getting married or retirement is allowable.
- The costs of providing staff entertainment are fully tax deductible by the company, and VAT can be recovered.
- However, there is a "cap" of £150 per employee which applies only from a benefit in kind perspective. If you spend more the £150 per employee on staff entertainment then the occasion which breaches the threshold, and subsequent events, will be taxable on the employee as a benefit in kind.
- Many employers will agree to settle the tax on such events by way of a PAYE settlement Agreement, rather than their staff being taxed on the cost of the entertainment. However, this is expensive as you will have to "gross up" the expense.
- Example. If it costs £10 to entertain them, and the tax due on this benefit was £4. You would have to pay them enough to end up with £4 after all taxes, i.e. maybe £8. Meaning the total cost is now £18.

Hosting events

- A mixed event including members of staff but also non-staff (including customers/ clients but also staff on other group companies).
- These events are classed as business entertaining, the presumption is that staff are attending the event to act as host to the non-staff and therefore the dominant purpose of the event is business entertaining.
- The expenses are not split, the whole cost is treated as business entertaining with no tax deduction and no recovery of VAT, but it is not a benefit in kind for the employees and doesn't count towards the £150 cap.

Food provided in the office.

- The provision of basic refreshments (tea, coffee, etc.) is ignored for tax purposes. Provided it is IN the office.
- There are rules which allow for employers to provide meals in the office as a tax free benefit to staff.
- The rules are really designed for offices with free or subsidised canteens- the offer or food must be open to all staff (though not all have to participate) and the food must be provided on site.
- There are similar rules which allow for the provision of food on site during meetings to be treated as tax free, where the food is merely provided to avoid the necessity of stopping the meeting for people to go and eat, for example a working lunch.
- Even though working lunches are exempt from tax, it must be reviewed for reasonableness – the employer could not provide lunch on a regular occasion as this would be deemed to be taxable.

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