



mortimer burnett  
certified accountants and business consultants

## Subsistence and entertainment

This guide explains how tax relief works for subsistence and entertainment costs.

**Subsistence** is a payment for an individual in relation to work-related travel, accommodation and meals beyond those normally required.

**Entertainment** is when someone in business provides a meal or social event to a customer, potential customer or other person such as a professional contact. Examples of entertainment include:

- meals
- hotel accommodation
- theatre and concert tickets
- sporting events
- night clubs
- certain business gifts.

Tax issues relate to whether:

- a) the employer may claim relief from taxable profits
- b) the employee must pay tax on any benefit
- c) whether the company may claim back the VAT incurred.

## Entertaining staff and customers

In terms of taxable profits, entertaining clients is not usually allowed. Entertainment of your own staff generally is.

For VAT, you cannot usually reclaim input tax on entertainment unless it is for your own staff, such as for a Christmas party. Entertainment of any 'non-employee' is regarded as business entertainment. Non-employees include:

- prospective employees
- employees of other group companies
- shareholders who are not employees
- existing customers.

If an annual function is primarily for employees but non-employees are also present, VAT may be claimed for the proportion that relates to the employees. So if a party has 20 employees and 5 non-employees, you may reclaim four-fifths of the input tax. If the function is primarily a business occasion to entertain clients and

prospective clients, no VAT may be claimed even if some employees are present.

There is 1 exception in relation to entertaining clients. You may claim VAT input tax in respect of entertaining a foreign client but not for entertaining a UK client. You may not claim relief against taxable profits for entertaining any client.

## Income tax for employees

There is a potential income tax liability for employees as a function is clearly a benefit in kind (BIK). However, there is a specific exemption for annual functions and other yearly social functions for employees where the total cost per person during the year does not exceed £150. This limit is calculated by dividing the whole cost of the event - including related costs such as accommodation, transport and VAT, even when this may be claimed as input tax - by the total number of people attending, whether employees or not.



Business UPDATE



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This exemption is not an allowance, so if the limit is exceeded then each employee is taxed on the whole amount of his or her share of the event. If the employer organises more than 1 event in a year, a tax charge arises when the limit of £150 is breached during the tax year. The exemption only applies to functions that are openly made available to all employees generally (or generally at one location, where the employer has more than one location).

## Employee entertainment: example

An employer organises 3 social events for staff during the tax year. The cost per event per person attending is £30 each for the first 2, and £100 for the Christmas party.

Month	Cost	Cumulative
May	£30	£30
September	£30	£60
December	£100	£160

The limit of £150 has been breached and so not all of the functions can be exempted. On the basis that the Christmas party and 1 of the other functions would together not exceed £150, it is therefore most efficient to exempt these 2 so that only 1 of the May and September functions is deemed to breach the limit. The benefit value per employee is therefore £30.

## Travel

Travel expenses are permitted as a deduction for business tax purposes provided they satisfy the 'wholly and exclusively' test and are not incidental to business entertainment. But an employee

is generally liable to pay income tax if the employer reimburses normal travel expenses, such as fares to commute from home to work, as these expenses are usually regarded as additional salary payments. There are some exceptions, such as for late night travel and travel for disabled employees.

Travel in the course of work is expected to be allowable as a business expense and is generally not regarded as a BIK on which the employee must pay tax.

The cost of travel from home to a place of work is not generally allowable as a business expense.

There are also rules about the amount that an employer may reimburse an employee for using his or her own transport for business.

Employers may reclaim the VAT on specific travel and subsistence incurred in the course or 'furtherance of business' but not if the employer pays the employee a flat rate sum for subsistence.

There are some special provisions regarding VAT for motoring expenses, such as VAT generally not being reclaimable for cars even if they are used solely for business.

Talk to us for more information on this point.



## Accommodation and meals

Subsistence covers items such as food and drink. When an employer provides these to an employee there is a potential income tax liability under the BIK rules, although a corporation tax deduction and BIK exemptions may be obtained subject to the 'wholly and exclusively' rules being met. Exemptions include expenses for normal tea and coffee as well as canteens available to all staff.

You must also consider the 'wholly and exclusively' restrictions when claiming for subsistence against income tax liabilities as a partnership or sole trader. This is because while an expense might be thought of as being for business purposes, people all need to eat and take shelter in order to live and so such expenses are disallowable. Even where labour-intensive trades require more nourishment, it is not possible to claim for the additional cost.

Meals are usually allowable, however, where they are both reasonable and form part of the cost of travelling to a place in the course of the trade. Similarly, if business trips necessitate more than 1 night away from home then both the costs of a hotel and any associated overnight subsistence are permissible.

The rules for accommodation are similar but can depend upon the nature of the employee's work and the value of the accommodation. Sometimes there is no tax liability for the employee but, where more permanent living accommodation is specifically provided (as opposed to paying for temporary hotel bills), the liability can have 2 elements based on:

- the rateable value and
- the amount by which the property value exceeds a cash limit.

## Speak to us

This guide only deals with the main issues and it is clear that there are many special rules regarding entertainment and subsistence.

Contact us to discuss subsistence and entertainment costs in your business.

