



MAGEE GAMMON
CHARTERED ACCOUNTANTS

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.