

Expenses and benefits: Christmas parties (including “virtual” parties) and gifts

This guidance note summarises the key points for Institutions/Schools, *etc.* who may be considering providing either Christmas gifts or parties, to ensure no additional, unintended costs are incurred.

Christmas 2020 will be unlike any other. HM Revenue & Customs (HMRC) have accepted this and provided some clarification for employers around the tax treatment of gifts and parties (including “virtual” parties).

Christmas parties and “virtual” parties

In normal circumstances, an employer who held an annual Christmas party, which was open to all of its employees, would be able to benefit from an exemption, under which no taxable benefit would arise where:

- the total cost of the event did not exceed £150 (inclusive of VAT), per attendee;
- the £150 limit (note, not an allowance) includes all costs such as food, drink, venue hire, transport and accommodation, *etc.*; and
- where the party was only open to all staff within one department or division, the exemption could be used provided all staff, at the same location, were able to attend one such function.

“Virtual” Christmas parties

HMRC has recently confirmed that where a Christmas party is held remotely, *e.g.* via MS Teams/Zoom, *etc.* the normal rules would apply to these “virtual” Christmas parties. What this means in practice is that, provided all staff are invited to attend the “virtual” party, anyone who actually attends could receive food and drink, *etc.* at home in a tax-free manner. HMRC have confirmed that this includes: the provision of vouchers to purchase reasonable amounts of food and drink to consume during the party; delivery of actual hampers/food and drink to consume during the party; and even the reclaiming of actual expenses incurred by the employee of food and drink to consume during the party.

In these cases, HMRC would expect the employer to maintain a list of individuals who “attended” as well as provide details of the items provided/reimbursed as well as receipts where expenses are reimbursed. Where the limits were exceeded, or benefits were provided to those who didn’t attend, the exemption would not apply. In such cases, you would need to consider whether the trivial benefit exemption (*below*) could apply; being mindful of the fact that the trivial benefit exemption cannot apply to: (i) benefits in excess of £50; or (ii) reimbursement of costs incurred by the employees.

As for the £50 limit on gifts (*below*), where the £150 per attendee limit is exceeded, the entire cost would be seen as a taxable benefit*; not just the difference between the limit and the total cost.

Christmas gifts

A Christmas gift, of up to £50, can be given to employees without incurring any additional income tax and/or National Insurance Contributions (NIC). This is because a Christmas gift is not seen, for tax purposes, as recognition for the employee’s services and therefore falls under the “trivial benefit” exemption. This is not the case for other gifts to say ‘thank you’ or ‘well done’ in respect of the employee’s job.

The £50 limit includes the total cost of providing the gift, including any VAT and postage costs.

Please note, where the £50 limit is exceeded, a taxable benefit will arise on the full value of providing the gift. In addition, where an employer allows employees to buy themselves a Christmas gift and reclaim it on expenses, this will not fall within the trivial benefits exemption and would therefore be a taxable benefit.

The tax and NIC liability would normally be settled by including the gift on the annual PAYE Settlement Agreement (PSA)*.

*** *Benefits included in a PSA***

Where a benefit is included on a PSA, the employer is liable for the income tax and employer NIC on the grossed-up value of providing the benefit. This can increase the costs quite considerably. For example, a £51 gift to a basic rate (20%), higher rate (40%) and additional rate (45%) taxpayer would cost an additional £21.55 (42.25%), £45.73 (89.67%) and £54.52 (105%), respectively.