CPH Accountancy

Chartered Accountants & Advisors

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Christmas Parties and Gifts

It's that time of year when thoughts turn towards the festive season. To ensure your Christmas party doesn't leave you with a tax bill as well as a headache, here's a reminder of the tax treatment of providing seasonal gifts and benefits to staff.

Staff Entertainment

Annual parties costing up to £150 per head do not need to be reported (as a benefit in kind for the employee) as long as the party is available to all staff, not just directors or partners of the business.

Take care that the cost of the qualifying party does not exceed £150 per head otherwise all of the cost (not just the excess over £150) is taxable. Remember that the cost of the function includes VAT and the cost of transport and/or overnight accommodation, not just food, drink and entertainment.

In the event the cost exceeds the limit per person, the benefit must be reported on each employee's P11D. In some cases the grossed up tax may be paid by the employer though a PAYE settlement agreement (PSA).

This limit of £150 per head applies to all guests attending the function, not just employees. Divide the total cost of each function by the total number of people (including non-employees) who attend in order to arrive at the cost per head.

Allowable Expenditure

Unlike client entertainment, the cost of employee entertaining is an allowable expense, as long as it's not incidental to the entertainment of others. If you invite clients and customers along to your annual office party, you must apportion the costs for tax purposes.

Gifts to Employees

Christmas presents paid in cash to employees will always be taxable along with their earnings. The same treatment applies to non-cash vouchers or any other benefits of "money's worth".

If employees are given a seasonal present such as a bottle of wine, chocolates or even a turkey, as long as the cost is reasonable, HMRC won't seek to tax it; these gifts are considered 'trivial benefits'. If the gift extends beyond this, for example from a bottle or two to a case of wine, or from a turkey to a Christmas hamper, you need to consider the contents and cost before being able to determine whether the benefit is trivial. While the official HMRC guidance is that there is no lower amount to what would be

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Cutting Costs? Make sure your measures are sustainable

In difficult economic times, with increasingly competitive markets and continued pricing pressure, businesses inevitably turn their focus towards cost control.

The knee-jerk cost cutting that often results can leave organisations in a worse state than they were in before. These efforts risk producing one-time changes which can damage the organisation's culture and lower staff morale. Many cost cutting measures are put into practice without considering their long-term sustainability. According to a recent KPMG survey, more than 95% of cost reductions achieved during the recession are expected to

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Completing your Tax Return – a few tips to avoid overpaying tax

Check HMRC's calculation. If you're planning on submitting your own tax return online or even if you submitted a paper return before 31 October and have asked HMRC to do the calculation for you, make sure you check HMRC's calculation for obvious errors, as sometimes computations can be incorrect and you may end up paying too much tax. It is always worth checking the computation yourself or having the tax return professionally prepared, together with a tax calculation, so that your accountant can query any mistakes with HMRC and get them rectified.

Don't forget about any payments made on account. Where the tax return is submitted online,

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Christmas Parties and Gifts

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treated as a benefit in kind, the general consensus amongst accountants is that a gift worth less than £50 is usually acceptable. If the value of the gift is more than this, it is taxable and should be recorded as a benefit in kind on the employee's P11D or included in a PSA.

VAT Implications

While VAT on client entertaining is not recoverable, the VAT incurred entertaining employees is: the business purpose being to reward staff for good work or maintain or improve staff morale. The restriction here is that again the entertainment cannot be restricted to the directors or partners of the business. HMRC do not generally accept that VAT is recoverable if the entertainment is restricted to the directors or partners, on the belief that such people do not need to reward or motivate themselves with entertainment!

The proportion of entertainment provided to non-employees is blocked under the business entertainment provisions. This means that you will need to apportion the costs for VAT if you invite guests to the party, such as the partners of existing staff, or former employees. For example, if an event is held which is attended by roughly equal numbers of employees and guests only 50% of the VAT would be recoverable.

Cutting Costs? Make sure your measures are sustainable

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return in the short-term; this equates to more than £90bn of costs across UK firms.

Some organisations fall into the trap of focusing cost management on the same business area every year. For example tackling selling, general and administrative costs by implementing across the board cuts without fully understanding the impact on the business. Others look for a single solution such as reducing headcount, changing the IT system or swapping utility providers.

Organisations should instead address the spend behaviour and decision making process which has led to costs becoming inflated over time. Businesses need to develop financial discipline and a detailed understanding of their cost baseline so that they can continually identify and track cost reduction opportunities. They need to develop the tools to benchmark costs accurately and monitor them after implementing any cost savings identified.

The vast majority of organisations undertake cost management to improve the efficiency of their business and ensure financial survival during difficult times. However those that view cost management in a more positive light and as a continual process are more likely to identify and execute efficiencies, both short and long term, that will prove resilient in the face of growth and deliver improved margins and competitive advantage. The drive for efficiency should be embedded into the everyday management of the business.

If you're considering embarking on a cost management programme but aren't sure where to begin, contact Collette Hearn at CPH Accountancy for a consultation.

Completing your Tax Return – a few tips to avoid overpaying tax

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the associated tax calculation shows the tax due for the year, not the balance which needs to be paid. Any payments on account made during the year need to be deducted from the liability for the year to show the balance due, if any. It is only this balance, plus the first payment on account for 2013/14, that needs to be paid by 31 January 2014.

Always check your tax code. Thousands of taxpayers may be paying too much (or too little) tax as a result of having the wrong tax code – a recent survey indicated that 25% of all taxpayers may be paying the wrong amount of tax due to incorrect codes and that pensioners are particularly vulnerable to problems.

Don't forget gift aid. You can tell the taxman about donations by filling in the section "gift aid payments". Gift aid boosts the value of donations by allowing charities to reclaim basic rate tax on your gift: £10 using gift aid is worth £12.50 to the charity. If you pay higher-rate tax, you can claim extra relief on your donations, for example if you donated £100 using gift aid, the total value of your donation to the charity was £125 so you can claim back £25 if you pay tax at 40%, or £31.25 if you pay tax at 45%. Remember to enter the actual amounts given on your tax return, not the gross amount you think the charity will obtain.

Don't leave things out. The most common mistake made on a tax return is the omission of a source of income, typically the interest arising from a bank or building society account, which can be substantial.

Tax returns for 2012/13 are due by 31 January 2014.

If you have questions or need help completing your return, contact Collette Hearn at CPH Accountancy.