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| **Staff Christmas parties and tax in 2020: virtually the same?** |

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| 2020 is the year that’s put the word ‘virtual’ in front of everything from quizzes to conferences. Many employers are now anticipating their first virtual Christmas party.This gives us an interesting question to explore: what are the tax implications of a firm’s festive get-together if it takes place online?**Let’s get this function started**While HMRC doesn’t currently have its own definition of ‘party’ or ‘social function’, many businesses will already be aware that HMRC allows for a tax-free benefit of providing such an annual event to staff, provided that the event meets the following conditions:* The total cost must not exceed £150 per head, per year
* £150 includes VAT together with any extra costs such as transport and accommodation
* The £150 is a limit and not an allowance: if the cost is £151, the whole benefit is taxable
* The event must be primarily for entertaining staff
* The event must be open to all staff (in that location, if you have several branches or departments)
* The event must not just be for directors, unless all your staff are directors
* The cost of the whole event is an allowable expense for your business
* You can claim back input VAT but this may be restricted where you are also entertaining customers

In a normal year it is quite common for employers to provide a number of parties. If the total costs are within the relevant exemption mentioned above then there is no reporting requirement. Where the exemption does not apply, it is common for the employer to pay any additional tax liability on behalf of the employees by way of a PAYE Settlement Agreement (PSA). While many things are uncertain these days, it seems certain that in the current year (2020/21), not many employers have hosted, considered or actually been able to hold a party. They are therefore likely to have the full £150 per head exemption available to them.**Mulled wi-fi**So how might a virtual staff Christmas party work, and would it meet HMRC’s criteria for exemption? Here’s an example.* As an employer, you send **all** of your staff an invitation to an office party
* The invitation states that both food and drink will be provided
* The invitation doesn’t state a particular location and instead provides a link to a Microsoft Teams or Zoom meeting
* On the day of the party, each employee who accepted the invitation receives a parcel in the post: a food hamper that also includes some wine and soft drinks
* The employee logs on to the video call and spends most of the evening enjoying the food, drink, live music and online games/quizzes that the employer has put on
* The total cost to the employer was £150 per head

We contacted HMRC and shared the above example. HMRC agreed that on the basis the cost did not exceed £150 and that all staff were invited, the example would constitute a party (albeit online) and the exemption would be available.  Let the bells (or notification sounds) ring out!**Good tidings we bring**To add a cherry on top of the Christmas trifle, employers may also wish to consider the ‘trivial benefits’ rules. Under these rules, you don’t have to pay tax on a benefit for your employee if all of the following apply:* It costs you £50 or less to provide
* It isn’t cash or a cash voucher
* It isn’t a reward for the employee’s work or performance
* It isn’t in the terms of the employee’s contract

So for those employers with a little extra cash available, in addition to providing a virtual Christmas party, you may wish to buy your employee a voucher for Christmas of up to £50! |

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