

Christmas Cheer

Moderation in all things is the taxman's motto when it comes to tax-free Christmas parties. The tax legislation allows employees and their guests to enjoy a Christmas party or similar annual function without suffering a benefits in kind tax charge – as long as the event is reasonably modest. In this regard, this means the cost per head is not more than £150.

Conditions

To qualify for the exemption, the event must be an annual function, such as a Christmas party or summer barbecue, it must be open to all employees and the cost per head must be £150 or less. Where an employer has staff at more than one location, it is permissible to hold an event at one location only, or some locations but not all, and still benefit from the exemption as long as all the staff at each location are invited.

Cost per head not per employee

When working out the cost per head, it is simply the total cost of the function (including VAT) divided by the number of guests (not just the number of employees). So, for example, if an event costs £15,000 and is attended by 100 employees and 83 guests, the cost per head is £81.77, being £15,000 divided by 183.

More than one annual function

Where there is more than one annual function each year, several functions may be exempt as long as the cost per head figure in total is not more than £150. The £150 is an exempt amount, not an allowance, and as such only whole functions can be exempt. It is not the case that the first £150 of the total annual cost per head figure is exempt.

Example

Happy Ltd has four events each year, in respect of which the cost per head figures are as follows:

Event	Cost per head
Ball	£200
Christmas party	£80
Anniversary dinner	£100
Summer barbecue	£40

The exemption is best utilised against the anniversary dinner (£100 per head) and the summer barbecue (£40) – a total cost per head of £140.

The remaining £10 is lost – it cannot be set against the Christmas party.

Although the Christmas party costs less than £150 per head, it is taxable as the exemption is best used against the anniversary dinner and barbecue. While it would be possible to provide the Christmas party and summer barbecue within the terms of the exemption, this does not make the best possible use of it as this would leave the anniversary dinner at £100 a head in charge rather than the Christmas party at £80 a head. The Ball cannot qualify as cost per head is more than £150.

What to report

If the party comes within the terms of the exemption, it can be ignored. If it is taxable, the total amount (employee plus any guests) needs to be reported on the P11D.

Beware, the benefit of the exemption is lost if a salary sacrifice arrangement is used.