

Providing food and drinks to staff

Scenario	Corporation tax implications	Employment tax implications	VAT implications
<p>Staff internal lunches</p>	<p>Expenditure relating to internal lunches or snacks is an allowable deduction for corporation tax within a limited company.</p> <p>However it must continue to meet the general definition for expenditure being that the expense must be incurred wholly and exclusively for the purposes of the trade.</p> <p>There must only be employees present for this treatment to apply.</p> <p>Allowable staff entertaining cannot be added back as an alternative to reporting benefits on a P11D.</p>	<p>The provision of annual events or functions, which are open to staff generally and which cost no more than £150 per head to provide are not normally taxable benefits.</p> <p>A taxable benefit will arise for any events which are in excess of the £150 allowance or where the event is not annual or open to all staff. The employer would have to report each benefit on a form P11D for each employee. The employee would be subject to tax on this benefit.</p> <p>An employer may enter into a PAYE settlement agreement (PSA) to settle the employee's tax liability on certain minor benefits and expenses including taxable staff entertaining.</p>	<p>Where an employer provides entertainment for the benefit of employees for example to reward them for good work or to maintain and improve staff morale, it does so wholly for business purposes.</p> <p>Where staff are entertained for a business purpose (including maintaining good relationships, etc) the input tax is wholly allowable.</p> <p>However, there are two exceptions to the general rule. These are where:</p> <ul style="list-style-type: none"> • Entertainment is provided to directors, partners or sole proprietors of the business • Employees act as hosts to nonemployees (i.e. client/business entertaining events)
<p>Staff taken out for lunch/drinks</p>	<p>Rules above are also applicable in this scenario</p>	<p>Rules above are also applicable in this scenario</p>	<p>Rules above are also applicable in this scenario</p>
<p>Subsistence – employee own expenses only.</p>	<p>Subsistence and travel solely in respect of employees is usually an allowable deduction for corporation tax purposes.</p>	<p>Reasonable costs for meals and drinks whilst working away from home overnight</p>	<p>Generally you can reclaim VAT on employee travel and subsistence expenses such as</p>

<p>Food, drink, newspapers, travel etc.</p>	<p>Some of the circumstances in which travel expenses are allowable are as follows:</p> <ul style="list-style-type: none"> • Provision of a workplace parking space for cars, motorbikes, bicycles and vans • Mileage allowance, for cars and bicycles, up to HMRC limits • Home to site travel costs for 'site based employees' • Payment of general subsidies to public bus services used by employees to travel to work • Travel and subsistence provided to an employee at a temporary workplace 	<p>are allowable provided receipts are available.</p> <p>Personal expenses such as laundry, newspapers, etc which would normally be taxable are allowable when the employee is working away from home up to a maximum of £5 per night or £10 per night if abroad.</p> <p>Travel:</p> <p>Travel expenses in relation to commuting costs, from home to normal place of work, are not allowable and if reimbursed would be a taxable benefit.</p> <p>Travel expenses provided to an employee for travel to a temporary place of work i.e. when away on business are not taxable expenses.</p> <p>All travel and subsistence expenses paid to an employee must be on a reimbursement basis and receipts must be provided by the employee and authorised by an appropriate company official.</p> <p>The expenses provided should be reported on the individuals Form P11D. The employee must submit a S336 claim to HMRC to remove these expenses from the charge to tax.</p> <p>Alternatively, an employer can obtain a dispensation from HMRC which removes the requirement for an employer to:</p>	<p>travel, meals and accommodation if you pay for those costs in part or in full.</p> <p>You cannot reclaim VAT on travel and subsistence expenses when you pay an employee a flat rate for subsistence expenses unless it is a mileage allowance to cover business use of an employee's own vehicle.</p> <p>The mileage rate is designed to cover fuel and running cost. You can recover the VAT included in the fuel element. This needs to be calculated using HMRCs advisory fuels rates however this will usually work out at around 2 pence per mile (depending on the CO2 emissions of the employee's vehicle).</p>
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<p>Subsistence where an employee is joined by a client</p>	<p>Corporation tax treatment of food and drink expenses in this scenario will be classed as business entertainment and therefore no an allowable deduction for corporation tax purposes.</p> <p>These expenses cannot be pro-rated for employee/client representative proportions.</p> <p>Employees' travelling costs may present particular problems. For example, where an employee travels in a taxi with a customer prior to lunch at a restaurant then the whole of the taxi fare is</p>	<p>Subsistence and travel in relation to meetings with clients is not a taxable benefit on an employee provided that it is necessary for the proper performance of their duties of employment. These expenses are not subject to NICs or income tax.</p> <p>The expenses provided should be reported on the individuals Form P11D. The employee must submit a S336 claim to HMRC to remove these expenses from the charge to tax.</p>	<p>Input VAT in relation to business entertaining is blocked and therefore cannot be recovered. As with the corporation tax treatment the VAT cannot be pro-rated</p>

	<p>incidental to business entertainment and is not allowable. However (provided the expenditure is for business purposes) the cost of the employee travelling alone to meet the customer at the restaurant is allowable.</p>	<p>Alternatively, an employer can obtain a dispensation from HMRC which removes the requirement for an employer to:</p> <ul style="list-style-type: none"> • Report expenses and benefits, for which an employee is entitled to a full tax deduction, to HMRC at the end of the year on forms P11D or P9D • Pay tax or NICs on items covered by a dispensation <p>In addition, the employee does not need to report details on their tax return or submit a S336 claim to remove the benefit from the charge to tax.</p> <p>A dispensation will only be granted if the employer has an adequate system in place for checking and authorising expenses claims to ensure that amounts claimed are not excessive and do not include any taxable items</p>	
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