

ESC 8 Entertainment Expenses

From 1 January 2003, section 8(1)(b) of the Taxes Ordinance 1997 has charged to tax all “gains or profits from any employment” on all employees, including directors of a company, whether paid in cash or not.

So if an employer pays an employee a cash bonus as a reward that is taxable as part of their income. Consequently, a non-cash reward is also taxable as a “gain or profit” from that employment from 1 January 2003.

It is an accepted practice in the Falkland Islands for employers to “reward” their employees for completing a specific job on time, or to a high standard. That reward usually consists of a night out with all costs of the employee, and his/her family or partner, being paid for by the employer. Such entertainment costs will become “income” in the hands of the employee, chargeable to tax.

The Tax Office will allow, by concession, an exemption from tax on entertainment expenses provided, and paid for, by employers on behalf of the employee and/or for a member of the employee’s family or household or their partner, subject to an annual financial ceiling of £100. This financial limit applies to each employee and includes the costs paid on behalf of a member of the employee’s family or household or partner.

The exemption should be taken as covering any form of hospitality (dinners, parties, etc.) but not cash rewards. Any costs associated with the entertainment, such as transport or overnight accommodation, are also included in the exemption.

Section 99 of the Taxes Ordinance 1997 stops a business deducting from its profits any item of expenditure incurred in entertainment unless the Commissioner is satisfied that it was reasonably incurred for the purpose of that business.

This concession will allow the employer to claim those costs as a deduction against the business income, again subject to the maximum annual ceiling of £100 for each employee including the costs paid on behalf of a member of the employee’s family or household or their partner.

If all of the actual costs incurred in the year on an individual employee and their family/partner exceed £100 then the excess of that amount falls chargeable to tax in the employee’s hands. Similarly the employer cannot claim the excess over £100 as a deduction in the business accounts.

If the actual amount expended in the year is less than £100 then only the actual expenditure can be deducted from the business accounts.