

Business entertainment expenditure

There have been some recent important developments in the area of business entertaining which could have an impact for both VAT and Corporation Tax.

The Corporate Hospitality Unit within Customs and Excise has been inviting businesses to make a declaration that business entertaining has been dealt with correctly for VAT purposes. Alternatively, businesses are being asked to state that their knowledge of the issue has improved as a result of reading guidance issued with the letter and to declare additional VAT due as a result of past errors. Customs and Excise have stated that they will conduct verification visits on these declaration categories.

Customs and Excise have also been writing to providers of corporate hospitality packages in an attempt to obtain details of the purchasers of their services. The decision to sign the Customs and Excise declaration is one which should be made on an informed basis with a full knowledge of the inherent risks.

The advantages of signing may include maintaining a good relationship with Customs and Excise, while the main disadvantage is clearly the possibility of a Customs and Excise review identifying errors of which the taxpayer was not previously aware.

Business entertaining is an area where indirect and direct taxes are inextricably linked and in the newly merged HM Revenue and Customs department there are likely to be far swifter exchanges of information between indirect and direct tax functions. Therefore detailed reviews of direct and indirect tax returns are a possibility.

Detailed reviews of direct and indirect tax returns could also follow where Customs and Excise hold information about specific items of corporate hospitality expenditure (e.g. from responses to the letters to the providers of corporate hospitality packages).

The significance of entertaining expenditure to affected businesses is obviously a crucial consideration, but in view of the fact that the legislation can bite in many unexpected areas, affected businesses may want to consider taking professional advice before making a decision as to whether or not to sign the declaration.