



Income Tax (Trading and Other Income) Act 2005

2005 CHAPTER 5

PART 2

TRADING INCOME

CHAPTER 4

TRADE PROFITS: RULES RESTRICTING DEDUCTIONS

Business entertainment and gifts

45 Business entertainment and gifts: general rule

- (1) The general rule is that no deduction is allowed in calculating the profits of a trade for expenses incurred in providing entertainment or gifts in connection with the trade.
- (2) A deduction for expenses which are incurred—
 - (a) in paying sums to or on behalf of an employee of the person carrying on the trade (“the trader”), or
 - (b) in putting sums at the disposal of an employee of the trader,is prohibited by the general rule if (and only if) the sums are paid, or put at the employee's disposal, exclusively for meeting expenses incurred or to be incurred by the employee in providing the entertainment or gift.
- (3) The general rule is subject to exceptions—
 - for entertainment (see section 46), and
 - for gifts (see section 47).
- (4) For the purposes of this section and those two sections—

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- (a) “employee”, in relation to a company, includes a director of the company and a person engaged in the management of the company,
- (b) “entertainment” includes hospitality of any kind, and
- (c) the expenses incurred in providing entertainment or a gift include expenses incurred in providing anything incidental to the provision of entertainment or a gift.

46 Business entertainment: exceptions

- (1) The prohibition in section 45 on deducting expenses incurred in providing entertainment does not apply in either of cases A and B.
- (2) Case A is where—
 - (a) the entertainment is of a kind which it is the trader's trade to provide, and
 - (b) the entertainment is provided in the ordinary course of the trade either for payment or free of charge in order to advertise to the public generally.
- (3) Case B is where the entertainment is provided for employees of the trader unless—
 - (a) the entertainment is also provided for others, and
 - (b) the provision of the entertainment for the employees is incidental to its provision for the others.

47 Business gifts: exceptions

- (1) The prohibition in section 45 on deducting expenses incurred in providing gifts does not apply in any of cases A, B, C and D.
- (2) Case A is where—
 - (a) the gift is of an item which it is the trader's trade to provide, and
 - (b) the item is given away in the ordinary course of the trade in order to advertise to the public generally.
- (3) Case B is where the gift incorporates a conspicuous advertisement for the trader unless—
 - (a) the gift is food, drink, tobacco or a token or voucher exchangeable for goods, or
 - (b) the cost of the gift to the trader, together with any other gifts (except food, drink, tobacco or a token or voucher exchangeable for goods) given to the same person in the same basis period, exceeds £50.

The Treasury may by order amend the sum for the time being specified in paragraph (b) so as to increase it.

- (4) Case C is where gifts are provided for employees of the trader unless—
 - (a) gifts are also provided for others, and
 - (b) the provision of the gifts for the employees is incidental to the provision of gifts for the others.
- (5) Case D is where the gift is given to—
 - (a) a charity,
 - (b) the Historic Buildings and Monuments Commission for England, or
 - (c) the Trustees of the National Heritage Memorial Fund.

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Changes and effects yet to be applied to the whole Act associated Parts and Chapters:

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- s. 7A-7D inserted by [2022 c. 3 Sch. 1 para. 3](#)
- s. 31E(4) inserted by [2022 c. 3 Sch. 1 para. 7\(3\)](#)
- s. 649(1A)(1B) inserted by [2023 c. 30 Sch. 2 para. 11\(2\)](#)
- s. 679(3A) inserted by [2023 c. 30 Sch. 2 para. 11\(5\)\(b\)](#)
- s. 679A(3A) inserted by [2023 c. 30 Sch. 2 para. 11\(6\)\(b\)](#)
- s. 680(1A) inserted by [2023 c. 30 Sch. 2 para. 11\(7\)\(a\)](#)