



Entertainment costs

Tax 2019

Tax ●

Because tax and VAT are treated very differently, it is important that entertainment costs are defined correctly compared to other operating costs, in particular costs for employees (staff costs) as well as sales and advertising costs.

Sales and advertising costs

Sales and advertising costs are 100% deductible in respect of tax and VAT.

As a main rule the full deductibility for sales and advertising costs depends on the expenses being paid towards a fairly large circle of people outside the company.

Staff costs

Staff costs are internal costs paid to the benefit of the employees of the company, and they are related to welfare or aim at improving the working environment or the working climate.

Staff costs can be deducted 100% in respect of tax, whereas for VAT there is no deduction on expenses for gifts, meals and events.

In terms of VAT, 25% of the total VAT amount on restaurant services are deductible. It is possible to deduct 100% of the VAT amount on overnight stays at hotels. If the stay includes breakfast (restaurant service) the invoice must show these costs separately to obtain the mentioned VAT deduction at 25% and 100%. Expenses can be paid for both staff and business relations. The deductibility will not be affected by participating companions.

In terms of tax, events with a mixture of participants (both business relations and employees) are in principle considered entertainment with a limited deduction of the total costs. In certain cases, costs for events with a mixture of participants can be broken down. An event with limited participation of external people can be considered internal get-together, implying that only the proportional share of the costs that concerns the external people (business relations) are treated as entertainment costs with a limited deduction.

According to the tax rules – but not the VAT rules – not only actual employees but also shareholders and employees of parent and subsidiary companies are considered “staff”, if they participate as such. Board members are considered as employees – both in terms of tax and VAT.

Entertainment costs

Expenses paid in respect of business relations are only deductible by 25% for tax purposes, and the VAT is in principle not deductible.

Entertainment is in the nature of attention or commercial hospitality vis-à-vis business relations and the concept of entertainment implies that the costs are paid for business purposes and on behalf of people who are not employed with the company as staff etc. Tax deduction for entertainment costs usually requires that the voucher/invoice:

- Is dated.
- Indicates the issuer and the recipient.
- States the services concerned.
- Contains a signature confirming receipt.
- States occasion.
- States name of participants.

The described VAT rules regarding deduction apply to companies with the right to full (100%) VAT deduction. If the company is subject to partial exemption and the cost is a general cost, the company should further apply their general VAT recovery ratio.

| | Tax deduction 1) | | Vat deduction | | |
|---|------------------|------|---------------|------|------|
| | 25% | 100% | 0% | 25% | 100% |
| Travel and overnight expenses (exclusive of meals) | | | | | |
| Staff | | • | | • 5) | • 6) |
| Foreign customers and suppliers | • | | | • 5) | • 6) |
| Domestic customers and suppliers | • | | | • 5) | • 6) |
| Meals (in general) | | | | | |
| <i>Restaurant visits:</i> | | | | | |
| Staff (meetings and social events) | | • | | • | |
| Business relations | • | | | • | |
| <i>At the company premises:</i> | | | | | |
| Staff (meetings and social events) | | • | • | | • 7) |
| Business relations (coffee and tea) | | • | | | • |
| Business relations (other meals) | • | | | | • 8) |
| General meetings, board meetings etc. | | | | | |
| <i>Restaurant visits</i> | | | | | |
| <i>At the company premises</i> | | | | | |
| Receptions, anniversaries etc. | | | | | |
| <i>Restaurant visits:</i> | | | | | |
| Staff | | • | | • | |
| Invited business relations | • | | | • | |
| Mixed participation: | | | | | |
| - Primarily staff | • | 2) | | • | |
| - Primarily invited business relations | • | | | • | |
| Open house (undetermined circle of people): | | | | | |
| - Minor service (not meals) | • | 4) | | • | 4) |
| - Greater meals | • | | | • | 4) |

Continues...

The diagram is only to be considered a guidance.

Note 1)

No deduction on expenses for tobacco as staff, entertainment or sales costs.

Note 2)

Full deduction for the pro rate concerning staff.

Note 3)

If sponsorships give access to other benefits than advertising, e.g. travels or events, it should be divided, and full deduction is only given for the sales and advertising costs.

Note 4)

Potentially full deduction according to a specific evaluation, if advertising value.

Note 5)

25% for restaurant services. In case of overnight stays including breakfast (restaurant services), the invoice must specify the two categories. If no specification, there is, in practice, according to The Danish Tax Agency, no deduction.

Note 6)

Only overnight stays at a hotel – not meals. In case bus transport services include VAT, full VAT deduction might be possible.

Note 7)

Full deduction for VAT on meals to employees in connection with meetings with business relations, meetings with professional contents and in-house training etc. when the needs of the company require the employer to ensure that meals are provided, alternatively 0%.

Note 8)

Full deduction for meals to business relations during meetings when the meals are served strictly for business purposes.

Note 9)

Full deduction for meals at board meetings. There is only full deduction for board meetings and no deduction for general meetings.

Note 10)

Wine with company name or logo delivered to customers/potential customers, only 25% deduction.

| | Tax deduction 1) | | | Vat deduction | |
|---|------------------|------------|----|---------------|------|
| | 25% | 100% | 0% | 25% | 100% |
| Receptions, anniversaries etc. | | | | | |
| <i>At the company premises:</i> | | | | | |
| Staff | | • | • | | |
| Invited business relations | • | | • | | 4) |
| Mixed participation: | | | | | |
| - Primarily staff | • | 2) | • | | |
| - Primarily invited business relations | • | | • | | 4) |
| Open house (undetermined circle of people): | | | | | |
| - Minor service (not meals) | • | 4) | • | | 4) |
| - Greater meals | • | | • | | 4) |
| Gifts (flowers, wine, alcohol etc.) | | | | | |
| For staff | | • | • | | |
| For business relations | • | | • | | |
| Miscellaneous | | | | | |
| Advertisers novelties: | | | | | |
| - With company name or logo below DKK 100 each exclusive of VAT (undetermined circle of people) | • 10) | • • 10) | | | • |
| - With company name or logo above DKK 100 each exclusive of VAT (gifts) | • | | • | | |
| Serving sandwiches, cakes, crisps, coffee, beer etc. for advertising purposes at e.g. trade fairs, exhibitions etc. | | • | | | • |
| Sponsorships, with advertising as trade-off | 3) | • | 3) | 3) | • |
| Samples, discounts and demonstration of products etc. | | • | | | • |

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