

Staff sustainability events under changing conditions 1/43/22



Senior Consultant, Tax, PwC Latvia
Madara Hmelevska



Director, Tax, and Head of Pan-Baltic
People and Organisation Practice, PwC
Latvia
Irena Arbidane

Now that the concept of remote work has become an everyday occurrence, many companies are considering ways to adapt their online staff motivation and team-building events to the new conditions. This article explores the State Revenue Service's opinion on staff sustainability events held within one department of an organisation and on catering expenses being included in staff sustainability event expenses ("SSEE") if an event is held remotely.

The rules

Section 8(2)(7) of the Corporate Income Tax (CIT) Act states that non-business expenses are all expenses that are not directly related to the taxpayer's business, including any representation expenses and SSEE for the financial year which together exceed 5% of the total gross employment pay calculated for employees in the previous financial year on which national social insurance contributions have been paid.

Under section 8(3) of the CIT Act, only representation expenses and SSEE up to the statutory limit may be excluded from the taxable base (SSEE must be recorded separately from other expenses).

It is important to note that within the meaning of the CIT Act, SSEE are expenses incurred in holding staff motivation or team-building events and other staff motivation expenses if those benefits have not been included in the individual's taxable base for personal income tax (PIT) purposes, or if the PIT Act exempts this type of income (the expenses are not traceable to a particular individual).

The tax authority's opinion

When it comes to examining a company's events for compliance with the definition of staff sustainability events, we need to bear in mind that a staff sustainability event should in principle cover all of the company's employees, rather than a particular individual. The CIT Act is silent on the following questions:

- What events qualify as staff motivation or team-building events?
- Are such events one-off or regular?
- What percentage of the company's employees are supposed to take part in those events?

In the absence of uniform rules, these questions will be decided by the purpose of an event: staff motivation or team building. However, if the company holds an event that can be attended only by particular employees (from one function, team, department etc), this does not qualify as a staff sustainability event for CIT purposes.

If an online staff motivation or team-building event is attended by all the employees and the company provides everyone with a meal during the event (food being delivered to their homes), the State Revenue Service states that although catering expenses would qualify as SSEE during an in-person event, they do

not qualify as such during an online event. Online catering expenses should therefore be charged to PIT and national social insurance contributions because those are traceable to a particular individual, so they would qualify as business expenses that do not go into the taxable base for CIT purposes.

In our view, this interpretation of the rules is not fair because regardless of external conditions, it is in the best interests of companies to take care of staff motivation and team building, especially in today's changing conditions. This opinion also implies that the CIT and PIT treatments vary according to how an event is held (in person, online or possibly a mix), which is not fair on taxpayers who do not have the opportunity to hold events in person.