Regulations on Entertainment

Background
The general rules on entertainment are based on tax legislation and regulations on what constitutes a deductible expense in business. There is a direct connection between these rules and VAT regulations on the right to deduct input VAT on expenses for entertainment. This document is based on the guidelines of the Swedish National Financial Management Authority. In it, the rules and regulations that are decided by the University are specified, while areas controlled by tax law and VAT regulations are indicated for information.

On the basis of Chapter 2, Section 5 of the Higher Education Act, the Vice-Chancellor decides on the following regulations (local regulations) and also provides information on the requisite parts of applicable legislation related to entertainment (current law).

Local regulations

General considerations on entertainment
Entertainment is a natural part of the University’s contact with the surrounding world. All entertainment is to be carried out with restraint and good judgement and it must always have a direct connection to the University’s activities. This applies to the time and place for entertainment events as well as to the participants.

External entertainment is directed outward and aims to initiate or develop connections which are important for the University’s work or which form part of its marketing and PR activities.

Internal entertainment is directed inward to the University’s employees and is more of a promotional measure for human resources, in the form of staff parties or information meetings, for example.

The University’s entertainment with alcohol must always be characterised by moderation. Non-alcoholic alternatives are always to be prominently on offer. Only in exceptional cases can spirits be included in entertainment expenses.

Approval
Expenses for entertainment and gifts are approved according to current rules of endorsement of payment orders. Entertainment which exceeds the amount limits set out in this document or which deviates from the normal rules on the composition of guest lists or other ordinary rules must be approved in advance by the Head of the relevant Faculty Office, the Head of the Administration for the University Administration and by the specialised centres or Vice-Chancellor in each individual case. In cases where deviations from applicable rules on entertainment occur without special approval having been obtained, there is a risk of personal liability through salary deductions.

**External entertainment**

According to the University’s regulations, the cost of external entertainment may go up to a maximum of SEK 650 excluding VAT per person and per event (cost ceiling).

Entertainment may not be luxurious. Frequently recurring external entertainment aimed at one and the same person or group of people should not take place. Expenses of a more personal nature or in conjunction with personal festivities are not to be considered business entertainment.

In the case of external entertainment, the number of participants from Lund University is to be well balanced in relation to the number of guests. This means that only in very special situations can the number of participants from the University exceed the number of external guests. Reimbursement for the participation of the spouses of University representatives or Swedish guests can only exceptionally be permitted and only with specific justification.

Entertainment at home should be practised very restrictively. In the case of entertainment events at home, it is particularly important to provide complete and valid documentation of the expenses incurred.

Within the cost ceiling for external representation, the entire cost of lunch/dinner/supper is to be covered for the event, including drinks, service charges and similar costs. Tips can exceptionally be left in the event of restaurant meals. The amount may not exceed 5% of the entertainment expenses. Tips are to be covered within the total cost ceiling.

The expense limits for entertainment apply to one occasion; if the occasion involves both lunch and dinner on the same day, the combined cost of both meals is to be covered within the cost ceiling.

Besides lunch, dinner or supper, external entertainment can also refer to other catering costs such as simple refreshments in the event of inaugurations, information or marketing activities or expenses for entrance fees, theatre tickets, etc. Expenses for simple refreshments are not to exceed SEK 100 excluding VAT per person and per event.

With regard to arrangement expenses for venue hire, musical entertainment etc. or theatre visits and similar events, the cost per person and per event may not exceed SEK 350 excluding VAT.

If the cost of meals is included in the participation fee, conference meals in conjunction with conferences arranged by the University do not constitute entertainment. If the cost of meals is not included in the participation fee, the meals constitute entertainment and the general rules for entertainment apply.
Internal entertainment
In the event of internal entertainment, such as staff parties, information meetings and so on, the cost per meal may not exceed SEK 450 excluding VAT per person and per event. This amount may exceptionally be exceeded in the case of events that can clearly be considered as thanks for the past year’s work, such as Christmas dinners. The cost in such cases may still not exceed SEK 650 excluding VAT per person.

The cost for catering in the case of simple refreshments may not exceed SEK 100 excluding VAT per person and per event. If retired staff members are invited to staff parties, the same cost ceiling applies to them as to current employees.

Within the cost ceiling for internal entertainment for each event, all expenses for lunch/dinner/supper including drinks, service charges and similar costs are to be covered. Tips can exceptionally be left in the event of restaurant meals. The sum may not exceed 5% of the entertainment expenses. Tips are to be covered within the total expense limit.

With regard to arrangement expenses in connection with staff parties for venue hire, musical entertainment etc. or theatre visits and similar events, the cost per person and per event may not exceed SEK 350 excluding VAT.

Gifts and celebrations
Gifts can be divided into three categories: promotional gifts, representational gifts and gifts to employees.

Promotional gifts
This refers to articles of relatively insignificant value (up to SEK 200 excluding VAT) often featuring the University’s logo.

Representational gifts
These require an immediate connection with the University’s activities (in the same way as for entertainment). Representational gifts can be things like a flower arrangement, a fruit basket or a book which, instead of a meal, are offered in connection with the signing of important agreements, the start or conclusion of an important cooperation, inaugurations or jubilees. In the case of representational gifts, the rules on bribery and corruption must also be observed. The cost of representational gifts may not exceed SEK 750 excluding VAT.

Gifts to employees
The main rule is that gifts from employers are taxable. The cost of simple celebrations such as flowers on the occasion of a public defense of a thesis, birthday, end of employment etc. may not exceed SEK 250 excluding VAT. Such celebrations are classified as staff welfare.

Certain types of gifts from the employer are specially tax-exempt, see below under the heading “Regulations that affect entertainment”.

Documentation
Expenses are to be verified with receipts/restaurant bills to be completed with a memo indicating the following:

- Date of the event.
- Aim of the event.
- Name, occupation or title of all participants
Written approval if the event deviates from applicable rules.

All documentation, including the information listed above, is to be attached to the invoice in Lupin or the travel expense report in Tur och retur according to the instructions in the relevant system.

In the case of simple refreshments in connection with open house events, inaugurations, etc., with a high number of participants, simplified documentation on the participants is acceptable.

Current law

Rules and regulation concerning entertainment

Tax on fringe benefits in the case of entertainment

Many of the issues that arise in connection with entertainment concern tax rules and in particular meal benefits. Below are listed some of the tax law problems that can arise in connection with entertainment.

The law on income tax states that all benefits that are included in an employment position in principle constitute taxable income for the recipient. Since the law allows certain exceptions from this general principle, it is important that the University takes this into account in its regulations on entertainment.

Tax-free benefits

The income tax law lists certain, particular exceptions from the main principle that all benefits are taxable. These include certain healthcare benefits, working equipment, loaned computers, gifts and training.

Free meals in the case of entertainment

Free meals are a taxable benefit if the benefit can be considered as remuneration for service. Whether the benefit is received continuously or only on occasion, whether it has been enjoyed abroad or whether someone else provided it is of no importance. Free meals, enjoyed within the country or abroad, are evaluated according to a standard rate under certain conditions.

Free meals that are enjoyed in the context of internal and/or external entertainment are not taxable but any subsistence allowance that may have been received is reduced accordingly. With regard to internal entertainment, the tax regulations’ definition in the context of benefits is not the same as the one that applies to the calculation of deductible costs (income tax for business activities) and deductions for incoming VAT. A human resources conference or internal course can include a tax-exempt lunch for the recipient while it is not to be considered deductible entertainment from the point of view of VAT and tax rules. Some conditions for free meals to be tax-exempt are:

- They are mainly in the context of internal meetings for the public authority
- The meetings have a maximum duration of one week
- It is not a case of regularly recurring meetings with high frequency (weekly or fortnightly)
- The meal arrangements are shared.

All conditions must be met in order for the meetings to be defined as internal entertainment. In other cases, the meals are considered taxable meal benefits. The
individual employee is responsible for notifying the salary office when taxable benefits have been received.

The Tax Agency has drawn up guidelines according to which staff parties (including Christmas dinners) hosted by the employer are to be held twice a year at the most.

**Gifts to employees**

Gifts to employees are regulated by the Swedish Tax Agency’s rules on certain benefits in the calculation of tax deductions and employer payroll tax etc. The rules are set out in SKVM 2008:23, for further information please refer to Human Resources.

The main rule is that gifts from the employer are taxable. Minor gifts such as flowers on the occasion of the public defence of a thesis, birthday or end of employment may amount to a maximum of SEK 250 excluding VAT. This type of gift is classified as staff welfare and is tax-exempt for the employee.

Certain types of gifts from the employer enjoy special exemption from tax. Tax exemption is accorded to the cases listed below when the value of the gift does not exceed the amount indicated. If the value exceeds that amount, the entire gift is taxable. The amounts are set by the regulations of the Swedish Tax Agency.

- **Christmas gift** – the current value (April 2011) may not exceed SEK 450 including VAT.
- **Jubilee gift** – this refers to a gift to employees in connection with the company/authority’s 25, 50, 75 or 100 year jubilee. The current value of the gift (April 2011) may not exceed SEK 1 350 including VAT. In the assessment of the value of the gift, the fact that it is engraved or not is not a factor.
- **Commemoration gift** – a gift of commemorative character that is given to long-term employees (at least 6 years) in connection with a significant birthday (e.g. 50th birthday), a milestone in the period of employment (25 years or more) or at the end of employment. A commemorative gift is tax exempt on condition that its value at present (April 2011) does not exceed SEK 10 000 including VAT and that it is not given to any single employee on more than one occasion besides the end of employment.

Tax exemption does not apply to cash funds (gift vouchers that can be exchanged for cash are considered equivalent to cash). For all gifts, tax exemption only applies as long as the value of the gift does not exceed the maximum amounts listed above. If the value of the gift exceeds the limit, the gift is taxed from 1 SEK.

The University is to be considered an employer in this context regardless of the department in which the employee works. Should an employee receive several gifts on an occasion, one of the gifts should be tax exempt on condition that its value does not exceed the tax free limit. All other gifts thereafter become taxable.

**Risk of bribery and corruption in entertainment**

In connection with entertainment events, the risk of bribery and corruption must always be taken into account. Public sector employees, and in particular those in positions of authority, must avoid exposure to the risk of being suspected of corruption. Therefore, in the exercise of authority, all entertainment is unsuitable.
Entertainment in connection with ongoing procurement procedures is also not permitted.

Bribery is regulated in Chapter 17 Section 7 of the Swedish Penal Code. Kickbacks are regulated in Chapter 20 Section 2 of the Swedish Penal Code. Unfair marketing is regulated in Sections 4 and 14 of the Marketing Act.

Questions regarding bribery and conflicts of interest are primarily to be addressed to the immediate superior. Beyond this, refer to the Ministry of Finance’s guidelines on “bribery and conflicts of interest”, available in Swedish on Lund University’s website.

**Reporting entertainment expenses**

Entertainment expenses within Lund University are to be entered in the books as follows:

- The entire cost of meals including service charges etc. for external entertainment is to be entered into account number 552000 Entertainment (external) and, for internal entertainment, into account number 496000 Internal entertainment.
- Incoming VAT regarding expenses for both external and internal entertainment which per person does not exceed VAT percentage (25/12/6%) * tax-deductible amount (180/90/60 SEK) is to be entered into the books on the account for incoming VAT 154200 Incoming VAT. Any VAT that exceeds that amount is to be entered into the books on the relevant entertainment account 552000 Entertainment (External) or 496000 Internal entertainment.

Example: Dinner at a restaurant for two people total cost SEK 800 including VAT SEK 160. VAT 2 x SEK 22.50 (25% of SEK 90 which is the limit amount) = SEK 45 entered on account 154200 Incoming VAT, remainder SEK 755 entered into account 552000 Entertainment (external) (SEK 640 + SEK 160 – SEK 45).

The cost of refreshments and other simple forms of entertainment for staff are to be entered into the books on account 495000 Staff welfare measures. Please note, however, that refreshments in connection with meetings are entered into the books on account 574700 Refreshments at meetings.

Previous non-deductibility of incoming VAT on wine and spirits has now been abolished for the sake of simplicity. VAT on these products is thus deductible within a SEK 22.50/equivalent limit.

Lund University’s decision Entertainment – General rules and recommendations (Vice-Chancellor’s decision 16 December 2004, Reg. no I B9 6095/2004), ceases to apply as of when the present decision is adopted.

The decision on this matter was taken by the undersigned Vice-Chancellor in the presence of the Head of the University Administration Marianne Granfelt after a presentation by the Finance Manager Lise Bröndum. The heads of the faculty offices and divisions participated in the processing of the matter.

Per Eriksson
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Copies to:
Heads of all faculty offices
Heads of all divisions
Rules and regulations