

# Tax Efficient Sponsorship and Business Networks: Can a Businessman Obtain Tax Relief on Sponsorship and General Networking?

By Julie Butler

In the recent recession it might seem "corporate hospitality" is a dirty word but businesses need to grow. Can sponsorship be tax allowable?

The recent *McQueen v R & C Commrs* [2007] Sp C 601 case has resulted in a helpful and favourable result for those involved in commercial sponsoring of competitors of sports activities. In *McQueen*, it was shown that the marketing advantage was not vague and uncertain but was clear and successful. There was evidence to demonstrate a direct correlation between sponsorship and the gaining of new clients.

The Commissioner's view was that the expenditure had been incurred for the purpose of promoting the business and getting names and liveries into the public awareness. Although the taxpayer gained some personal satisfaction from competing in rallies, his preferred leisure activity was sailing rather than rallying and the private satisfaction of success on the rally circuit was an incidental benefit of expenditure rather than its purpose.

## How can this be applied to current businesses trying to grow through sponsorship?

It has been argued that it is the purpose that matters, not the effect. In many cases although there has been a benefit for the business, the taxpayer could not demonstrate that the main purpose was anything other than for private benefit.

Many businesses might feel that they create a lot of clients and business activity through a sports/leisure activity and how can this be used tax efficiently? Is "*McQueen*" the answer? It is certainly worth looking at all networking /marketing activities to ensure they are tax efficient.

## What of the equine business?

Moving away from the sponsorship scenario, where equine activity is subsidised by an associated business, the other areas where HMRC are currently taking a very keen interest is that of horse businesses which do not produce a profit. This is especially the case where the proprietor has other income. There are two tests to be proven:

- The business must be carried on with a view to profit, and
- Must also be conducted on a commercial basis.

With the sight of apparent "green shoots" is this the time to take advantage of the "*McQueen*" case for strong sponsorship opportunities?

It would appear that now is the time. There is an old adage "never mix business with pleasure." However, the development of an enterprise can come from social roots. Friends from the rugby club, golf club or fishing organisation can generate income. A passionate sporting interest can generate bonds and can be high profile for effective marketing. So why did "*McQueen*" win in the Special Commissioners when so many other cases have failed? It would appear the answer is discipline, paper trail and evidence to show "other than private benefit."

As marketing opportunities are reviewed there is strong opportunity to incorporate sponsorship. With the 2012 Olympics on the horizon, sports sponsorship could be huge.