

Expenses, VAT and HMRC Compliance in a Nutshell

A Comprehensive Guide



Foreward

VAT rules can be complex, HMRC – a gauntlet. In this eBook, we demystify some of the facts around tax and expenses.

In the last decade, the British economy has gone from boom to bust. The recession followed by a long period of austerity, then recovery and general uncertainty around Brexit, has altered spending behaviours. At the same time, the Government has increasingly cracked down on tax evasion and fraud. HMRC has become more focused on assisting businesses of all sizes to comply with their policies and implement good governance when it comes to finances.

Nevertheless, the reality can sometimes be confusing and the penalties for getting it wrong – severe. Many businesses outsource their tax management to experts or muddle through, running the risk of non-compliance. There's a real need for unambiguous, helpful advice about expenses, VAT and HMRC compliance.

We've created this guide to help shine some light on the processes, practices and behaviours around tax and expenses based on some of the frequently asked questions we receive. When you get tax compliance right, not only will your business and HMRC become more confident of your process, reclaiming VAT on your expenses can actually put money back in your budget.

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Keeping the Taxman Happy

THERE'S A COMMON MISCONCEPTION...

Most people assume HMRC inspectors are only interested in completed expense claims and associated receipts – but they're not. When the time comes to audit your business, HMRC will be looking at your entire travel and expense process from start to finish.

The secret to satisfying the taxman is having a full, end-to-end process in place.



WHAT ARE HMRC INSPECTORS REALLY INTERESTED IN?

They review the whole process for weaknesses, focusing on the following six areas:

- A clear and enforced policy.
- Appropriate approval processes.
- Appropriate documentation.
- Appropriate checks and controls.
- Tax and VAT compliance.
- A robust and secure payment process.

A Clear and Enforced Policy

A good policy covers what can and cannot be reimbursed to an employee when they're travelling for business.

It sets up the ground rules: how your employees should travel for business and how you expect them to spend the company's money. It should also set out your mileage reimbursement rules (HMRC is particularly interested in this area). It's entirely up to an organisation as to what goes into that policy – but it's best practice to use your company policy as the basis of your travel and expense process and all spending decisions.

75%

of senior finance decision makers say they wish they knew more information about employee expenses and VAT reclaim.¹

In summary, ensure your policy includes:

- Details of what is and what is not reimbursable.
- Business travel guidelines.
- Mileage and fuel rates for reimbursement.
- Personal expenditure rules that cover circumstances and amounts as well as what is specifically excluded.

Appropriate Approval Processes

HMRC requires that people at the right level in the business are signing off the right level of expenses – and they check that every expense form is appropriately signed off, so that the company accepts liability for that reimbursement. Even the most senior-level employees are required by HMRC to submit their expenses for approval.

An appropriate approval process includes:

- A fully traceable audit trail.
- Evidence such as valid VAT receipts and credit card slips.



Time to create or update your policy? Use this [Expenses Policy Template](#) as a starting point or to check you have thought of everything.

Appropriate Documentation

This includes a full and robust end-to-end record of forms, receipts and approval processes that stop things falling through the cracks. A business reason should be provided for why every line item was incurred, and every line item should be documented and supported by a receipt to show that the money has been spent. There should also be a signature to show that someone appropriate has checked that it complies with company policy.

Appropriate Checks and Controls

HMRC look to make sure that appropriate checks and controls have been carried out on those completed forms. Typically, these checks are performed by your finance team or outsourced as an audit process to a

third party. There are no set rules on what you should be checking – but you should be able to fulfill the requirements above and have some kind of audit to make sure the right receipt is attached. When claiming back VAT on employee expenses, receipts containing VAT information should be attached.

These are the sorts of checks and controls that should be in place:

- A means of ensuring the claim has gone through the appropriate process.
- Receipts have been checked.
- VAT has been verified.
- Mileage is substantiated.



Don't have time to audit expenses internally? Watch a **short video** to learn about the Concur Audit service.

During this process, HMRC want to see:

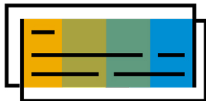
- All employee expenses are accurately captured on the appropriate forms.
- PAYE Settlement Agreement (PSAs) are in place, if required.
- Valid VAT fuel receipts are available for mileage claims.
- There is sufficient data to justify business expenses.
- Personal items have been identified and dealt with correctly.

Tax and VAT Compliance

If you intend to reclaim the VAT rightfully owed to your business, you need to ensure you collect the necessary VAT receipts and that expenses are accurate and legitimately incurred.

A Robust and Secure Payment Process

HMRC will also check that the payment process is secure and safe from abuse. They will be looking for weak areas open to risk, and they might consider investigating these further during an audit.



What are [PAYE Settlement Agreements](#)? PSAs allow you to make one annual payment to cover all the tax and National Insurance due on small or irregular taxable expenses or benefits for your employees.

Tricky VAT Rules

They say the two things you can be sure of in life, are death and taxes. VAT was introduced to the UK on 1 April 1973. It was supposed to be straightforward and simple. Yet many years later, some of the rules can still leave you scratching your head – and they're changing all the time.

Hiring a car is a prime example. If you hire a car to replace a company car that's off the road, you can usually claim back 50% of the VAT from the hire charge.

If you hire a car for another reason, you can reclaim all the VAT if you hire it for no more than 10 days, it's used only for business and it's not available for private use. Not easy is it?



VAT IS HERE TO STAY

Confusion around VAT is not going to disappear as more governments around the globe think of new and inventive ways of raising money – after all, VAT is the third largest source of revenue in the UK after income tax and National Insurance.

But it's not meant to be tricky. In 2010, the Office for Tax Simplification was launched with the sole aim of making tax simpler and less confusing for the British people.

HOW MUCH DO YOU KNOW ABOUT VAT?

- Did you know that any purchase over £250 needs a full VAT invoice, not just a till receipt, to reclaim the VAT?
- Are you aware that you can only claim back VAT on employee's expenses (and not on someone else's expenses who you have hosted but isn't on your payroll)?
- Did you know that you can only claim back VAT on gifts under the value of £50 per person in any 12-month rolling period? If you go over £50 you have to pay the VAT back on the lot!

54% of eligible VAT across travel and expense spend is left unclaimed by UK businesses.²

FREQUENTLY ASKED QUESTIONS

Here are just a handful of the VAT and expenses-related questions we get asked on a regular basis:

Can I reclaim VAT on a taxi receipt?

As long as the company is VAT registered and you get a valid tax receipt, then yes. But the truth is, most taxi drivers are below the tax threshold and won't be VAT registered.

Is it true you can claim back VAT on up to £25 worth of expenses without a receipt?

It depends. That notion comes from an old, often misinterpreted piece of legislation which accounted for spend on coinoperated machines like telephones and parking. Now that most expenses can be paid digitally, you should always have a receipt for any VAT you claim.

How long do you need to keep VAT receipts for?

As a standard, you need to retain VAT receipts for seven years in the UK, and often longer in Europe (e.g. 10 years in Germany).

Will HMRC penalise those who don't keep receipts?

Yes, most probably. With expenses, you are reimbursing your employees for what they paid out, legitimately, for business. If you can't prove they incurred those expenses then it appears you're just giving them a taxfree extra boost to their salary.

If an employee is travelling on the road for business, but goes via the office, can they claim the full journey?

Typically travel between your home and normal place of business is not considered a "business" journey by HMRC. Therefore, the business element of the journey starts at the office, not home.



If you're currently using spreadsheets to stay on top of your expense process, we recommend you take a look at [The Essential Guide to Managing Expenses in the UK](#) eBook.

Reclaiming VAT on Fuel

Fuel is one of the hardest areas to crack when it comes to reclaiming VAT on expenses. It can be unbelievably confusing to work out and terribly easy to exaggerate. It's also one of the first things HMRC check.

Companies have the right to claim back VAT on the fuel element of mileage allowances paid to employees. But this must be supported by fuel VAT receipts which, in turn, must be dated on or before the date of travel.



Here are four ways to reclaim VAT paid on fuel for business trips:

1. 100% RECLAIM

HMRC says you can reclaim 100% of the VAT incurred on fuel paid for business purposes. But you have to be able to prove that the fuel has been used 100% for business use only and that no private journeys have been taken. (This is almost impossible unless your business is a taxi firm or a driving school).

2. 100% RECLAIM + A FUEL SCALE CHARGE

You can reclaim 100% of the VAT incurred on fuel paid for by the business if you also pay a **VAT fuel scale charge**. It's a simplified way of taxing the private use of

car fuel. So, if a vehicle is used for business and private trips, you can claim all the VAT on road fuel as long as you pay the appropriate fuel scale charge. The charge is based on the CO₂ emissions and type of car driven. In some cases if the mileage has been low, it may work out more expensive to claim the VAT back.

This reclaim method is one of the easiest for the VAT auditors to check and catch finance teams out on, as companies forget to pay the fuel scale charge or update the amounts when the fuel scale charge changes every year.

17% of senior finance leaders do not currently reclaim VAT on business mileage claims. And 12% of them said they never will.³

3. Vanson Bourne: Connecting the Dots on Travel, Expense and Invoice Spend

3. CLAIM ONLY THE BUSINESS MILEAGE

You can reclaim the VAT on the business element of any fuel purchased by keeping a detailed mileage log. You then do the maths to work out how much of the VAT on that purchase can be reclaimed. Alternatively, you can use the **advisory fuel rates** published by HMRC.

4. CLAIM NO VAT AT ALL

You can opt to claim zero VAT on mileage, but if you choose to do so, then you need to apply this across all the vehicles in your business, including commercial vehicles – so you won't be able to claim VAT on mileage travelled in company delivery vans either.

Four Year Rule

If you've kept your receipts or necessary evidence, it's possible to seek unclaimed VAT on fuel used for business trips for up to four years. Likewise though, HMRC can come after you for four years' worth of receipts to prove you can support your VAT reclaims.

Reclaiming the VAT on fuel used by your business and employees can help your company make money – but get it wrong and it can cost you. It's probably best to use an **outsourced audit service** because, done right, this can help improve cash flow and help you stay on top of taxes.



Cracking the Code on Expense Compliance

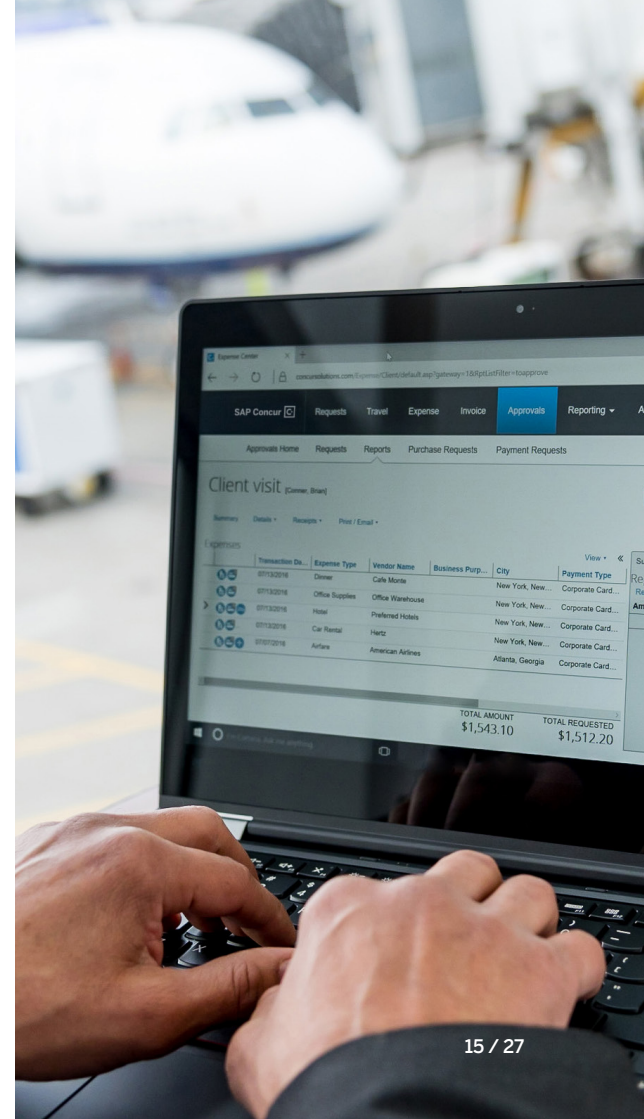
offers insights on tackling both internal and external expense compliance.

International VAT

Did you know that VAT is recoverable in more than 40 countries around the world?

For companies who have employees that travel to any of those countries, there is a percentage of tax in many expense types that can be reclaimed when business travellers return to their home country.

However, billions of pounds in international VAT are unclaimed by companies each year.



Why Companies Don't Reclaim International VAT

1. THEY DON'T KNOW THEY CAN

Although the countries that allow VAT reclaim have well-established protocols in place, you won't be surprised to know that they're not always widely advertised. This, coupled with the fact that most companies have no idea about how much they can potentially reclaim, means VAT stays as a hidden cost.

2. COMPLEX AND DIVERSE VAT LEGISLATION

Each country has the right to set its own rules and determine the process by which VAT can be reclaimed. But because the individual rules are different for each country, the process can be quite tricky. On top of this, many submission portals are inefficient and overly-complex, and the end result for most companies that try this method is a high rate of rejected claims.

24%

of senior finance leaders aren't confident that they understand how to claim back international VAT.

Source: Vanson Bourne

3. LACK OF TIME AND VAT EXPERTISE

Because each country has different rules and processes in place, it is virtually impossible to find one person in your business that has all the knowledge required for complete and accurate VAT reclaim. In addition, language variations, changes in time zones and currency issues add further complexity. For these reasons, most companies assume that there is probably not much money to reclaim, and it would cost them too much to employ the team required to reclaim the VAT.

4. SO WHAT CAN COMPANIES DO?

There are many experienced companies with the resources and expertise needed to help you recoup VAT and inject cash back into the business – often at no cost to you, as their fees are simply a percentage of the cash claimed back on your behalf.

SAP Concur works with a range of tax specialists including:



Going Beyond VAT

Compliance with HMRC guidelines, ensuring you're paying the right amount of VAT, and having the information needed to report accurately to HMRC are good ways to keep the taxman happy.

So what happens next? Here are a few things to think about beyond HMRC requirements to ensure that your company can take compliance to the next level.



1. KNOW WHAT HMRC IS FOCUSING ON FOR THE YEAR AHEAD

VAT is a major source of income for the government. For the year ahead, HMRC is likely to focus its efforts on recovering owed money where it can, by:

- Reducing tax evasion, fraud and avoidance.
- Increasing collections of VAT due.
- Ensuring VAT compliance.
- Increasing risk-based auditing.

2. CHAMPION COMPLIANCE

Keeping up-to-date on the frequently changing VAT rules is vital. Lead by example; run frequent spot-checks and spearhead compliance within your own company.

Finally, investigate the benefits of process and system improvements with third-party providers who can also offer a guaranteed compliance service.

83% of senior finance leaders trust an external person to help with their VAT position.

Source: Vanson Bourne

3. AUDIT EXPENSES – AND LOOK OUT FOR FRAUD

Unfortunately, fraud is a real issue when it comes to employee expenses. One in five employees think it's okay to exaggerate their expenses for a range of reasons. When 99% of managers approve expenses without question, the onus is clearly on finance to safeguard against out-of-policy and illegitimate claims. Technology holds the key to ensuring this compliance.

4. EDUCATE AND EMPOWER EMPLOYEES

Employees are unlikely to comply with an expenses policy that they don't understand or perceive to be unfair, but it's possible to change minds by making it

easy to claim expenses and by making sure that everyone understands why the policy is in place. When technology, people and policy work together, the process is simplified for everyone involved.

5. GET HELP

Tax can be, well, taxing. It can put a major strain on your staff in terms of time and satisfaction. Consider outsourcing to experts who understand VAT rules, are trained in spotting and following up on errors, and can help you reclaim cash – that vital lifeblood of your business.



Watch a [2-minute video](#) to see an approach to ensuring expense compliance from SAP Concur.

How Can Technology Help?

With the best will in the world, if organisations are not effectively managing their employee expenses, they risk falling foul of HMRC requirements.

You may have a robust expenses policy in place and a seemingly effective process to tackle that shoebox of receipts. But is that enough and is it really working for you?



THERE MUST BE A BETTER WAY

Expense management solutions can help track the costs of business travel and related expenses in a way that increases transparency and efficiency. When combined with the power of a mobile app, it helps employees and their managers to be far more effective at: submitting expenses, ensuring they are within policy, approving expenses, and reporting on them to comply with HMRC regulations.

CLOUD AND MOBILE SOLUTIONS MAKE IT SIMPLER FOR EVERYONE

The easier it is to submit, approve and audit expenses, the quicker the end-to-end process becomes for all involved:

- **The business traveller** who can simply photograph, upload and attach all receipts to their claim while out of the office. They can even automatically populate their expense claims with accurate receipt data at the click of a button.
- **The manager** who can easily approve an expense claim while on the move, or reject individual line items that don't comply with policy. They're no longer the bottleneck in the approval chain delaying payment.
- **The finance controllers** and admin staff who have all the receipts to hand without having to spend hours rekeying data. They are more likely to have time to identify errors, check for appropriate VAT reclaim and pinpoint suspicious items.

36% of finance leaders say their expense process was completely efficient.⁵

- **The finance leader** who is more likely to have confidence in the expenses process. They gain increased visibility of company-wide expenditure and can identify areas where savings can be made through **business intelligence** and reporting tools with powerful dashboards.

In short, smart collaboration using an automated system can help drive compliance throughout the organisation, making both individual travellers' and finance's lives easier and, more importantly, helping to manage the risk from the ever-changing landscape of regulatory compliance.

An automated solution provides:

- Complete management of the end-to-end process.
- Built-in triggers and alerts.
- An automated approval process.
- Help to identify VAT reclaim opportunities.
- Granular reporting so you can get a more complete view of company spend.

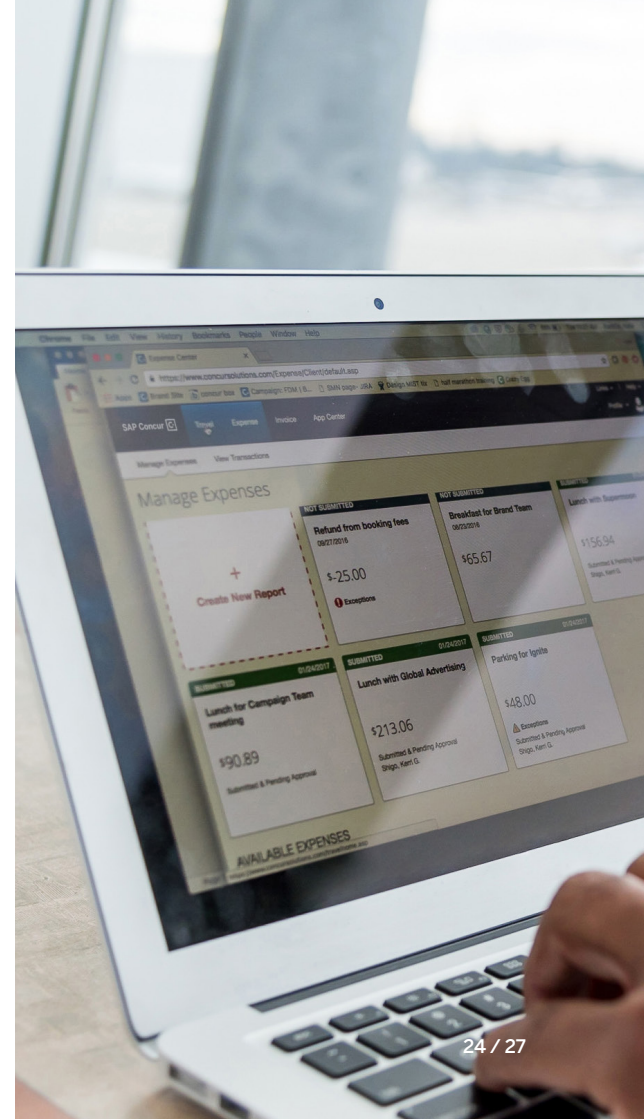


Take a [test drive](#) of the SAP Concur solution.

Next Steps

It may be easier to keep the taxman happy than you think.

Complying with HMRC guidelines, ensuring you're paying the right amount of VAT, and having the information available to report on employee expenses are key.



We hope you've found this guide useful on your journey to managing expenses, VAT and HMRC compliance more effectively.

As a takeaway, here are the next steps to consider:

1. **Put a system in place** that can quickly and accurately streamline the end-to-end travel and expense process, making it painless for all concerned.
2. **Build in your expenses policy** so every claim can automatically be checked by the system.
3. **Reduce manual data entry** by automatically extracting data from receipts and credit card feeds.
4. **Maximise VAT reclaim** by outsourcing and effortlessly exporting your expense data to a VAT reclaim expert.
5. **Use mobile, connected solutions** based in the cloud, to make it easy for employees and managers to complete and approve claims anywhere, at any time.

After all, managing expenses is about more than just balancing your budget. It's about introducing efficiency and cost control, understanding what your employees are spending to bring in new business, and having accurate, timely information available to make smarter decisions.

**50%-
60%**

lower processing costs. That's what some businesses have achieved by implementing an automated expense solution.

Source: The Aberdeen Group

HOW SAP CONCUR CAN HELP

Expenses no longer have to be a headache for everyone involved – from the salesperson in the field, through to the manager authorising them, to the finance team dealing with the paperwork (not to mention the missing paperwork!).

SAP® Concur® lets your business manage all your travel and entertainment expenses spend in one place. It allows employees to input their expenses on their smartphones, tablets or PCs, while comparing their claims against your policy, built into the system, indicating exceptions for manager approval.

Managers can review and approve claims in the office or on the move. You can also:

- Let employees book directly with preferred suppliers.
- Automatically check every receipt against policy for **guaranteed compliance** and to maximise VAT reclaim.
- Tap into numerous partner apps that help you work smarter.
- Get detailed access to intelligent dashboards and reports.

You can even [manage your company's invoices](#) through SAP Concur. But that's a story for another day...



There's a wealth of information on our website. Visit our [Resource Centre](#) to learn more.

Want to Try a Better Way of Doing Expenses?

Not sure if automation would add value to your business? For a free consultation call +44 (0)1628 761 1000 or visit concur.co.uk.

We can help you set up a pilot programme for your business, or explain what expense automation is all about.

ABOUT SAP CONCUR

SAP® Concur® is the world's leading provider of integrated travel, expense, and invoice management solutions, driven by a relentless pursuit to simplify and automate these everyday processes. With SAP Concur solutions, a top-rated app guides employees through every trip, charges are effortlessly populated into expense reports, and invoice approvals are automated. By integrating near-real-time data and using AI to audit 100% of transactions, businesses can see exactly what they're spending without worrying about blind spots in the budget. SAP Concur solutions eliminate yesterday's tedious tasks, makes today's work easier, and help businesses run at their best every day. Learn more at concur.co.uk or the [SAP Concur blog](#).

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