



## Get HMRC ready expenses

Create an expenses policy that works

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# Creating an expenses policy

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What is an expenses policy and why does a company need it? In a nutshell it provides a clear and concise outline of a company's policies and rules when it comes to business related expenses. It provides the employees with a high level view of what is expected and specifically guides the employee on what is and isn't an acceptable expense for the company; and in certain circumstances for their job role or department. An expenses policy also provides the practicality to how claims can be made and the company's procedure of adhering to policy, processing an expense and monitoring the claims.

Why does a company need an expenses policy in place? The basic answer is that it can save a company money and improve efficiency and compliance. How? Well by implementing an expenses policy, all of the company's employees know where they stand, what they can and can't claim for and to what limit. This reduces the number of conflicts that can occur when an employee has an expense which isn't approved, it reduces the time spent checking the expense and having it authorised by a Manager or accounts team and it also minimises the potential for low morale and poor attitudes that can occur as the result of conflicts. By having these rules in place, your employees claiming expenses will comply with not just your own policy, but with HMRC legislation as well.

Financially an expenses policy cuts the cost base of doing business by providing a robust expenses control function. It also throws out the era of 'guesstimates' loopholes and fiddles that may have occurred in the past. The grey areas are gone and there is a clear mark between acceptable and unacceptable. Also think about an employee conducting business travel where they are required to stay overnight – the employee may have previously booked into a high standard of accommodation when an equally good business orientated accommodation chain provides the same service at a substantially different price. With a limitation placed on the expense, the employee will need to change their habits to become in line with policy.

Where should a company start? The best way is to begin by putting together a list of what are legitimate business expenses that suits the sector, industry, ethos or image of your company. Selenity work with a variety of companies, all of whom operate different policies that match their values, their sector, their way of doing business.

Once this list is prepared your company needs to start thinking about where existing expenses spend falls, and what the average costs of these are; consider whether they match up to the company's expectation. It is important to get these written down along with your list – Why? Providing your employees with an expenses policy is the first step, but the next question you would inevitably be asked is “...so how much can I spend?”

Consider using industry wide guides, such as for hotels or overnight accommodation. Hotel Price Index provides an analysis of the marketplace at the present time giving you high level views of the average pricing in each country, and major city.

Numbeo gives a fantastic view of average costs across the United Kingdom for such things as meals, mobile phones and other expenses an employee might encounter. It is very easy to change this to a different country as well as advising you on employee allowances.

Don't forget to consider how your expenses allowances might fall with Her Majesty's Revenue and Customs (HMRC). You can find all the relevant information at the HMRC website.



**“The inbuilt policy management in Selenity Expenses will ensure compliance of both our expenses policy, and HMRC rules, reducing the time both line managers and the finance team spend checking.”**

*Kate Moorcroft,  
Group Treasurer and Head of Finance,  
Barratt Developments*

# Starting tips

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When all of this information is gathered together you will find that the majority of the work is already done. All that's left to do is write the policy and enforce it. So before we start here's a few tips:

- Be fair with your expenses policy. Employees will respect a difference in the amount a director can claim for an expense item to what an employee can, but they will be less happy if the amount is significantly lower than what they have previously claimed without due justification.
- Ditch the jargon! Keep the policy basic and easy to understand. There is ample opportunity in the future to amend and change it. The simpler it is to read, digest and understand a policy, the more successful it will be.
- Consider the rules and locations. Hotel prices and meal prices will differ in different locations and regions. There are also endless scenarios where meetings or travel might be booked late or in an emergency.
- Ensure the policy is easy to find for employees. Use an intranet and/or have a hard copy in the staff room.
- Keep it up-to-date. An effective expenses policy should be a work in progress, regularly updated and adapted to match the changes in your organisation or legislation.

# Bribery and receipts

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Finally there are a few more things as a company you need to be aware of.

Firstly, the UK Bribery Act 2010 introduced a new crime of failure to prevent bribery, which means organisations need to demonstrate they have adequate procedures to prevent corrupt practices. Failure to do so could expose the business and its senior managers to unlimited fines, exclusion from government business or even a jail sentence. The legislation is relevant to expenses as it states a business should ensure claims are reasonable and justified; leaving no room for expenses or payments to be perceived as bribes. Having an expenses policy allows a company to monitor and record its expenses.

Secondly, the company procedure for expenses. How will an employee have their expenses approved and to whom should they hand their receipts or documentation? This is quite dependent upon the size of the company, a standard procedure would be:

Thirdly, what to do with your receipts? An Allocate Software and CIPP (Chartered Institute for Payroll Professionals) investigation into HMRC's paper receipt policy led to confirmation that UK businesses no longer need to keep hard copy receipts for employee expenses in storage for any reason, provided that electronic copies exist on their financial IT systems.

HMRC will not, it has confirmed, require paper as a back-up to electronically stored copies. Using an electronic expenses system, such as Selenity Expenses to manage staff receipts for expenses such as mileage and subsistence is now recognised by HMRC as standard practice.

**'Selenity Expenses is configured around our policies and processes so our finance team spend less time checking and have confidence that colleagues are reimbursed correctly.'**

# HMRC inspection

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HMRC have been tasked to raise £billions extra by HM Treasury without raising taxes. To achieve these targets HMRC have dramatically increased the number of Employer Compliance Reviews that they conduct on employers. To target which employers will be audited first, HMRC have started a new initiative to help them to focus their limited compliance resource.

Instead of conducting routine on-site visits on all employers which is manpower intensive, HMRC will initially request sight of an organisation's benefits & expenses policies. If these policies provide comprehensive guidance on how to claim expenses accurately and which also enable the employer to arrive at the correct taxable status of an expense, HMRC will not waste their limited resource on commencing an enquiry. They will simply move onto the next employer whose policies are not perceived to be as thorough.

What happens during an inspection?

- HMRC Inspectors go through a fact finding questionnaire so they know which areas to concentrate on.
- HMRC always review expenses policies before deciding to carry out a review.
- They will inspect actual expenses and mileage records.
- Their aim is to find mistakes and attempt to extrapolate them across the whole workforce and then go back over the last 6 years.
- Simple mistakes can end up costing a small fortune.
- An out-of-date policy or one that does not cover all of the bases will lead to HMRC assuming that you are making mistakes.

HMRC will be interested to see if you enforce your expenses policy, whether it provides employees with clear guidance on business travel, as well as if you have an effective approvals process and auditing in place along with documentation.

# The Expenses policy

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At the very basic level a company's expenses policy should cover the following:

- 1) Statement of Purpose (Overview of the policy)
- 2) Company Expectations and Policy Compliance
- 3) Policy Process
- 4) Allowable Expenses

The best way is to start on these four points and then add and elaborate as time goes on. So let's begin your company's expenses policy.

At each point this guide will explain the purpose or meaning of the section and then provide a wording example that you can pick out and put into your own expenses policy. There are also some helpful HMRC rules where necessary.

# Statement of purpose

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This is the immediate welcome and opening to the company expenses policy. The purpose of it is to explain to the employee why there is an expenses policy and what its aim or role is. It enables the company to set a few basic guidelines and responsibilities such as who the policy is applicable for, who will be responsible for enforcing the policy.

## Example

This document sets out the rules and guidelines of (INSERT COMPANY NAME) expenses policy for all employees when incurring travel, entertainment and related expenses whilst on company business.

The company will reimburse all approved and reasonable expenditure incurred whilst undertaking company business. The guidelines set, enable controlled reimbursements to take place and indicate the evidence and authorisation required by the company. It also provides the management and those that administrate expenses with a reference source for any business related purpose.

(INSERT COMPANY NAME)'s aims are to:

- Ensure all items are at a reasonable cost and for approved purposes.
- Ensure (INSERT COMPANY NAME) complies with its tax and legal obligations including the Bribery Act 2010.
- Reimburse all employees in a timely and efficient manner.
- Prevent fraudulent activity.

Under the general tax law, expense payments are deemed as a taxable remuneration. Taxpayers may claim deductions for expenses incurred in the performance of their duties. This meets the requirements of HMRC.

It is the responsibility of senior staff members to ensure that costs are controlled and that expenses cannot be deemed to be extravagant. It is not possible to design the policy to suit every circumstance however, firm limits have been set in place and are enforced by line managers unless unusual circumstances or prior authority is gained.

This policy may be revised at any time by senior management or HR. (INSERT COMPANY NAME) will inform the employee prior to changes or amendments.

# Company expectations and policy compliance

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Here the policy explains to the employee what the company will do to assist with expense claims as well as what the expectation is of the employee who wishes to claim, such as, VAT receipts, date restraints to the proof of purchase, deadlines on internal processes such as month end or payroll cut of dates. As a company this section wants to highlight to an employee all of the necessary criteria that are applicable to a successful expense claim.

It is also a good area to outline what happens if an expenses claim does not comply with policy or is rejected and the grounds for an appeal and explain what the internal process is.

## Example

All expense claims must be supported with original or high quality copies of receipts or invoices. Credit card, fuel card and associated purchasing cards that have been issued by (INSERT COMPANY NAME) should also be accompanied by an itemised receipt giving full details including VAT numbers and amounts where applicable.

The company must obtain receipts whether that be original or high quality copies so that VAT can be reclaimed from HMRC.

In order for the company to comply with the VAT reclaim rules, each receipt or invoice must detail the following:

- The time and date of purchase.
- Full VAT registration number.
- A description of the goods/services supplied.
- The total charge, including VAT for each VAT rate, and the VAT rate charged.
- Name and address of the supplier.

Individual departments will bear the cost of all reimbursable expensing incurred by their own employees and any VAT which cannot be recovered due to lack of correct sales vouchers.

(INSERT COMPANY NAME) reserve the right to decline an employee's expense claim if it is deemed to be supplied with insufficient information.

(INSERT COMPANY NAME) expect all employees who incur or submit expenses to behave honestly, responsibly and act within the guidelines of this policy.

Claims for expenses with lost or unreadable receipts will not be accepted.

This policy is taken very seriously within (INSERT COMPANY NAME) and all employees are expected to comply at all times. Breaches of the policy may result in disciplinary action or termination of employment.

# Policy process

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One of the most important things to outline for all employees within the company is how the process will work, who will authorise the expense item and when and how the expense will be reimbursed.

It is important to have a clear path or approval structure that employees can understand and that makes sense for the size of the company and levels of management.

## **Example**

Your direct manager will authorise all expenses submitted. However, in the event that this is not possible an equal or superior manager may also approve expenses.

All expense items must be submitted within 90 days of the expense being incurred. Expenses items for reimbursement will be reconciled on the last working day of each calendar month; expenses will then be reimbursed to the employee at the next available payment date via BACS from (INSERT COMPANY NAME).

If an employee is in doubt over whether an expense is in policy they are to refer to this document or seek advice from their direct manager. Written justification for an expense outside of the policy is always required; otherwise the expense item will be declined for reimbursement.

# Allowable expenses

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## Checks

So we find ourselves at the important part, what an employee can claim and how much is acceptable. Earlier in this document we discussed the importance of the company outlining what they deem acceptable to claim as an expense and to what limit. This is where all this information is collated and added in the document. It will inevitably be the area that the employee focuses on the most. What you will find below is a listing of basic expenses that are quite generic, but first you must understand what is an allowable expense.

The general rule for non-travel related expenses is that:

- The expense must be one that each and every holder of that employment would have to incur.  
E.g. A salesman wants to claim the cost for their glasses that they require for driving. As not all salesmen require glasses to drive, this cost is not allowable.
- The expense must be necessarily incurred.  
An expense can only be allowed if it is necessary for each and every employee to perform their duties of employment. For example two employees may have to travel for business. One decides to take the bus, the other decides to travel on the train. Both costs are allowable.
- The expense must be incurred in the performance of the duties of the employment.  
The expense must be incurred in actually carrying out the duties of the job. It is not enough for the expense to be relevant to the job, or to be incurred in connection with the duties of the job.
- The expense must be incurred and paid.  
The amount of the deduction is limited to the amount of the earnings from which it is to be deducted. Surplus expenses cannot be claimed from any other source of income.
- The expense must be wholly and exclusively so incurred.  
The words “wholly” and “exclusively” prevent a deduction for expenditure that serves a dual purpose, a business purpose and a non-business purpose. An example of dual purpose expenditure is money spent on ordinary clothing that is worn at work, clothing that is worn both in work and out of work obviously has a dual purpose and so no deduction is allowed. However, even if the clothing is only worn at work no deduction is allowed. This is because at one and the same time the clothing has the purpose of providing cover and comfort to the employee as well as the purpose of being suitable for work.

## Business travel expenses

If your employees travel for business, they can be reimbursed their full travel costs both tax & NIC free, as long as the employee makes the journey for purely business purposes. Generally there are no limits prescribed in the legislation to what form of travel the employee can take so budgets permitting, however paying for limousine hire and helicopter flights may be deemed to be excessive by HMRC as they will perceive such extravagant expenditure as a reward and not necessary for the business trip.

Your expenses policy should clearly explain your business travel rules on mileage, reclaiming public transport, car hire and taxis.

What now follows is a listing of basic expenses that are quite generic. There are also some limitations put in place that are in line with HMRC guidelines.

## Example

### Overnight accommodation for employees

The company pays for overnight accommodation. An employee must demonstrate reasonable effort to attain a competitive rate for accommodation. The maximum amount that can be reimbursed by (INSERT COMPANY NAME) is £120.00 Outside of Central London, £150.00 Within Central London, a supporting receipt is required. Any excess of this amount would be expected to be funded by the employee unless prior approval has been given and evidence is available.

There is an allowance of £20.00 for evening meals, any excess of this amount would be expected to be funded by the employee unless prior approval has been given and evidence is available.

Any claim that is deemed extravagant will not be approved for reimbursement.

### Overnight incidentals for employees

If staying away from home overnight whilst conducting business activities the company recognises that employees may incur some incidental expenses above the basic costs of bed and meals. The company will reimburse costs for drinks, newspapers and/or telephone calls. Supported by receipts up to the value that is set by the current HMRC guidelines (EIM02730 Section 241(3) ITEPA 2003).

- Within the United Kingdom  
£5.00 per night
- Outside of the United Kingdom  
£10.00 per night

Costs for entertainment such as television services and films are considered taxable. The company will not reimburse for such expenses.

## **Meal allowances not related to an overnight stay for employees**

When an employee is away from the office on company business but not staying overnight the company will reimburse for breakfast and lunch meals based on the following:

- The employee is absent from the office for more than 50% of the working day.
- The meal and remote site are more than 20 miles from either home or office.
- To claim for breakfast the journey must have commenced prior to 0630.

The company has set a limitation of £10.00 and a supporting receipt is required.

The company will reimburse an employee for an evening meal based on the following criteria:

- The employee consumes the meal after 1930.
- The meal is consumed at an eatery that is greater than 5miles from office to home.
- Time working away from home or office is greater than 10hrs.

The company sets a limitation of £20.00 and a supporting receipt is required.

## **Credit card fees**

Annual credit card fees for personal credit cards used on company business are not refundable by the company.

## **Business and staff entertainment**

Business Entertaining is any expenditure which an employee incurs when entertaining customers, suppliers, or other business connections. Each claim that is submitted for entertaining (staff and business) must show the business purpose, where the event took place, the name of all attendees with their status and company alongside. Failure to complete any of the above will result in the employee's expense being declined for reimbursement.

The following can usually be regarded as reasonable and genuine business occasions:

- Genuine product launches.
- Lunches etc for customers or potential customers at which business is discussed.
- Reasonable entertaining at exhibitions etc at which products are on display for customers.

On an occasion where a customer or client may stay at a hotel as a guest of the company then their accommodation and meals will be paid for by the company. Authority for this must be made by the senior management team.

All expenses covered within this category must have receipts to support the claim. There are no limitations set however prior authority must be gained first.

## **Domestic air and rail travel**

All bookings for air flights that fall within the United Kingdom should be booked by the employee, firstly seeking authority from their direct manager. Economy class or equivalent must be used for all journeys.

The company requires a full receipt and copy of boarding passes for reimbursement. There is no limitation to this expense however the company encourages all employees to seek competitive pricing in advance to take advantage of lower prices. This is also encouraged for rail fares.

As standard (INSERT COMPANY NAME) encourages all employees to travel by standard class when travelling by rail. The only exception to this is when first class tickets are equal in price or less than standard class.

The company sets a limitation of £150.00 on a rail journey and requires a receipt or visual evidence of the booking.

## **Overseas air and rail travel**

All bookings for overseas travel, including travel tickets, hotels and any other reservations must be made through the company's central booking team. Prior authority from your line manager will be required.

The company provides the following guidelines:

- Economy class will be used for all flights and rail journeys unless a higher class is available at an equal or lesser price.
- First class flights may only be taken if the upgrade is free.
- Sea travel is not to be used where there is an option to fly.

All expenses claimed within this category are required to have full receipts and detailed information on why the journey is being conducted and who the employee is visiting. Receipts will also be required, to reconcile the expenditure through the central booking team.

## Foreign currency

(INSERT COMPANY NAME) asks that all foreign currency is requested through the finance team. The currency required will be given to the employee in the form of an advancement for all expenses incurred. The employee is required to submit receipts and evidence for all expenses incurred whilst conducting business.

The remaining currency along with expenses should be handed back to the finance team on return from the employee's travel.

## Other travel related costs

All employees who receive either a company car or a car allowance are expected to use their cars to travel to and from an airport or rail station, unless parking fees would exceed the cost of a two way private taxi.

Employees who do not receive either of the above are expected to use public transport to travel to and from the airport or rail station in line with the travel expenses policy.

The company, through the finance team will pay the costs of all visa applications directly. Any visa associated costs incurred whilst travelling will be reimbursed directly.

## Telephone related costs

When a private telephone or mobile phone is used for business calls, employees may claim the cost of business calls plus VAT on a quarterly basis. (INSERT COMPANY NAME) requires a copy of the telephone bill in order to process the expense item.

Where significant numbers of business calls are conducted from a private address and a company issued mobile phone or personal mobile phone allowance is not suitable then a separate business line must be installed and the bill addressed directly to the company. The company will in this circumstance pay the rental and all calls including VAT.

## Company car policy

(INSERT COMPANY NAME) will reimburse mileage at the following rates:

- Company car drivers  
25pence per mile
- Car allowance recipients  
25pence per mile
- Use of private car  
45pence per mile for the first 10,000 miles in a tax year  
25pence thereafter

Fuel for private journeys will be paid for by (INSERT COMPANY NAME) when the employee has a fuel card. The private mileage deduction for employees with fuel cards is 25pence per mile.

The company will reimburse all servicing in line with the dealer recommendations on company cars only.

All car parking expenses incurred will be paid for by the company and should be submitted as an expense item for reimbursement along with a reason for the expense.

The company does not pay any valeting or car wash costs. It is the responsibility of company car drivers to ensure the car is well maintained and in a reasonable level of cleanliness. Car allowance recipients are expected to uphold the same.

Employees that receive company car allowances must have a vehicle available for use when required to carry out their duties. (INSERT COMPANY NAME) require a copy of the business insurance policy, tax disc, MOT certification and servicing records of the vehicle on file. Claims for mileage will not be permitted if these documents are not supplied.

The company will not pay any fines in connection with the Road Traffic Act.

## Membership of professional bodies

(INSERT COMPANY NAME) only pay subscriptions to approved professional bodies where an employee is approved to take up membership by senior managers.

There are certain circumstances where subscriptions paid may be taxable and the employee should be aware that they may incur a tax liability.

## Training courses

Training courses should be booked through the HR department and paid for using standard company invoicing and payment methods.

On any occasion where an employee is required to pay for the course and incur an expense then they should seek authority from their direct manager.

Any accommodation and travel costs incurred whilst attending a training course fall under the same guidelines as detailed earlier in this document.

## Equipment purchases

Equipment purchases, including IT equipment for use at work or home are not allowable expenses and recovery of the purchase costs by employees is not governed by this document.

Such expenditure is capital expenditure and this process is controlled by the procurement department.

## Cash advances

Employees are able to request a cash advance when completing business over a duration of time that requires a substantial spend. All cash advances must first be authorised by a direct manager and are only able to be used for company business. Only one advance is permitted at any one time and must be reconciled before another is issued.

All cash advances must be reconciled with accompanying receipts within 30 days of issue, travel, or other arrangement with the finance team.

The company reserves the right to recover any amount owing to the company through salary deduction if improper reporting is submitted or an employee leaves the company

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To find out more about any of the topics discussed in this report, please email: [marketing@allocatesoftware.com](mailto:marketing@allocatesoftware.com)

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