

Financial Management Hints and Tips

Financial Management Hints and Tips is an occasional series of White Papers from Insight Associates and The Outsourced Finance Department aimed at providing practical help to business owners and managers

MAKE SURE YOUR EMPLOYEES' EXPENSES DON'T LEAVE YOU OUT OF POCKET

Keeping a tight reign on employee expenses is a must, especially where constant travel and entertaining is a significant element.

Produce a written policy document and keep it up to date to ensure there are no surprises. Ensure that all employees are fully aware of the policy. Employees must also understand that any expenses that they need to incur that are not covered by the policy must be approved in advance. If you consider an employee's expenditure excessive or inappropriate, it is very difficult to refuse to reimburse them after they have incurred the expense. It is also somewhat unfair on them if you have no set guidelines.

When it comes to reclaiming expenses, make sure that there is a clear procedure, and that employees understand the importance of VAT receipts to support expenses. Finally, impose a clear timetable on the submission of expenses so that they are all properly accounted for within the business on a monthly basis.

Your questions answered ...

Q

Can I pay round sum allowances to my employees?

A

It is not a good idea to pay round sum allowances to your employees unless you first get agreement from the Inland Revenue (a process called a dispensation).

If you pay an amount which is not exactly the same as an incurred expense (which can be proven) then the Inland Revenue may consider this a benefit to the employee and it should be declared on the annual P11d form. This will result in the employee being taxed on it, and the employer paying Class 1A National Insurance contributions.

Q

What is the best way to reimburse the use of an employee's car on company business?

A

The most efficient and tax effective way to reimburse an employee for using their own car on company business is by using the Inland Revenue Approved Mileage Rates. These are set at 40p per mile for up to 10,000 miles pa, and 25p per mile thereafter. Paying at these rates (or below) is completely tax free to the employee and a fully deductible expense for the employer.

It is not advisable to reimburse against fuel purchase receipts as there can be no proof that all of the fuel reimbursed was used on company business and it may therefore become taxable.

Q

How do I know I have a valid VAT receipt?

A

In order to be able to reclaim the VAT element on UK incurred expenses it is necessary to have a valid VAT receipt or invoice. Normally this must as a minimum show the trader's name and address and VAT registration number*, the name and address of the person to whom the item is supplied, a unique reference number, date*, a description and value* of the item(s) supplied, and the amount(s) and rate(s)* of VAT charged. However retailers may issue less detailed receipts for amounts under £100, which must as a minimum contain the items above marked with an asterisk.

Q Are all expenses allowable?

A Only expenses incurred “wholly, exclusively and necessarily” in the course of the employer’s business are allowable as a taxable deduction in the business. This test should be applied to employees’ expenses and be clear in the policy.

Care should also be taken with expenses that serve a dual purpose, such as clothing which could be worn outside work (such as a suit) or telephone rental charges for a line installed at the employees home that could be used for personal calls. This are generally not deductible at all.

Q What are the rules on Entertaining?

A This again is a highly complex area, but as a general rule entertaining costs are not deductible for tax in the business, and nor is the VAT recoverable.

There are certain exemptions for staff entertaining (social functions such as Christmas Parties) and business gifts.

As you can appreciate from the above, there are many tax considerations in dealing with expenses, and it is generally a highly complex area. This White Paper cannot even begin to touch the surface on these issues and it cannot therefore be considered comprehensive or definitive. Separate advice should be sought on specific questions, and we would always be very happy to help.

If you have any further questions, or would like to learn more about any topic discussed here, please call us on 0800 180 4265

A little about us ...

Insight Associates is a firm of **Company Finance Managers** specialising in the provision of proactive commercial hands-on financial management to businesses.

Founded in 1992, the firm has extensive experience of building and managing the financial controls, systems and processes needed in any business, as well as managing companies through extensive corporate turnaround situations.

We can give you the financial skills that you need to build and develop your business, or turn it around if the going is tough. We take responsibility for our role within your business, thereby allowing you to focus on where you can add the maximum value.

Our well established and highly developed processes are flexible enough to provide everything from our specialist division **THE OUTSOURCED FINANCE DEPARTMENT**, through to a top level part-time Finance Director role. Our working model is designed to develop long term working relationships with our clients, which we do by constantly anticipating client needs and only ever providing what is needed in the most effective way. We aim to help the client to be able to help themselves.