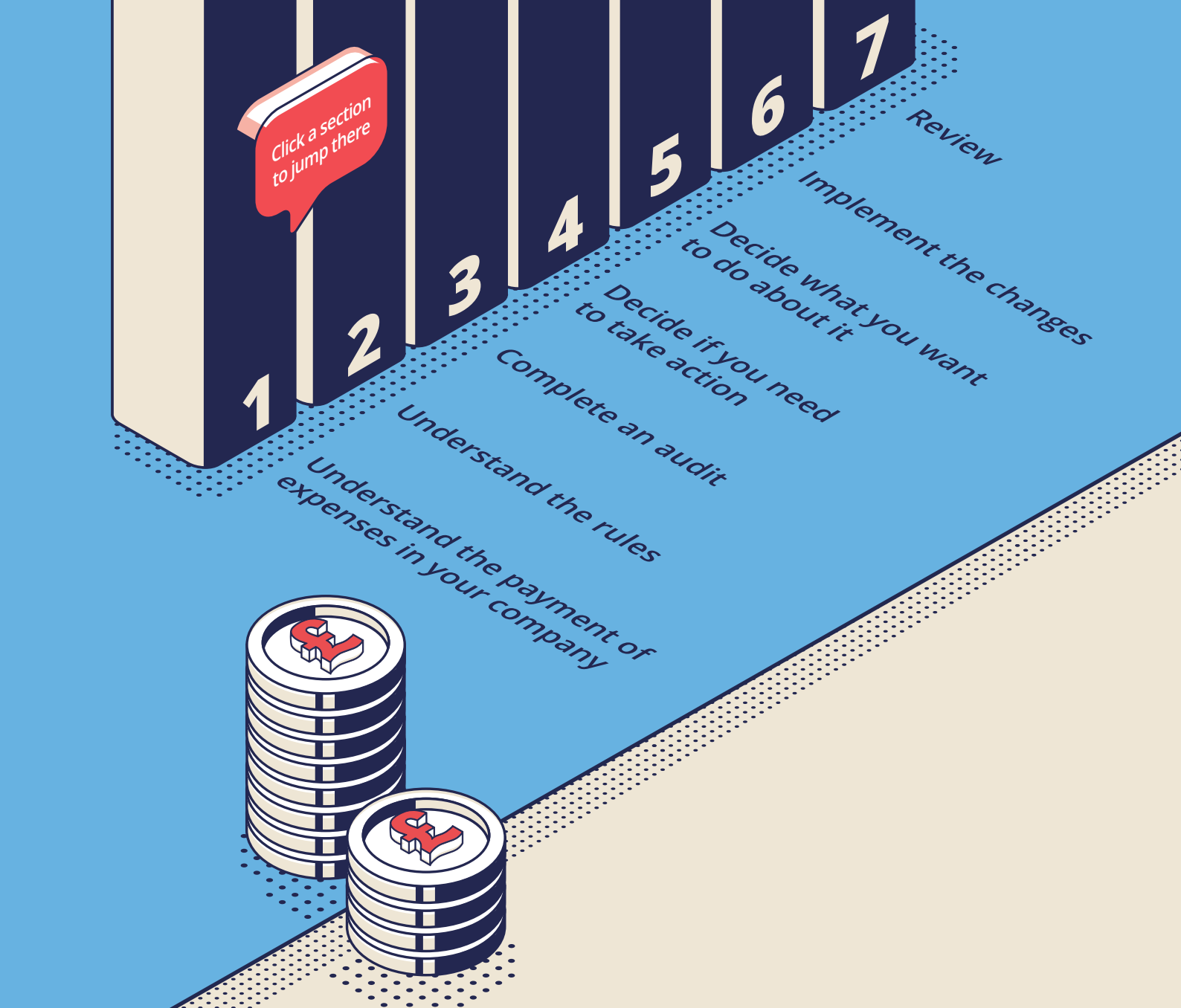


Expenses and VAT – your 7 step guide to getting compliant





VAT on expenses is an area that often gets overlooked – after all, it’s not one of the most high-profile areas of finance work.

But finance professionals often find that it is also an area that is difficult to get right, both in terms of efficiency of the process but also, crucially, in terms of compliance.

This short guide is designed to give you a clear step by step method to follow to make sure that your expenses process is fully compliant for VAT and to help you to highlight any areas that need changing.

Use this guide and the accompanying [compliance checklist](#) as a working document to systematically audit your methods.

It’ll give you the basis for a comprehensive audit and the ability to make sure your systems and processes are working exactly as they should be.

Why should you bother?

If for no other reason you should want to make sure you are compliant for professional pride but there are some more tangible reasons why you need to check your compliance.

HMRC check thousands of companies every year for VAT compliance and if you get a check or even an investigation then you may well find yourself in hot water.

The first issue is of course that **if you are found to have underpaid VAT then you will probably be hit with a penalty and interest on the VAT not paid** (not to mention having to find the underpaid VAT).

However, HMRC also takes a dim view of companies that report VAT incorrectly either because they were careless or willfully negligent.

If you can show that you have taken steps to ensure compliance and that the underpayment is a genuine misunderstanding or disagreement about the VAT treatment of a particular expense then the likelihood of a penalty is far reduced and HMRC is generally happy to help companies that have tried to comply with the law.

If, however, HMRC believes that you have been careless, in other words, you have never bothered to check your process for compliance, then any penalty may well be **increased**.

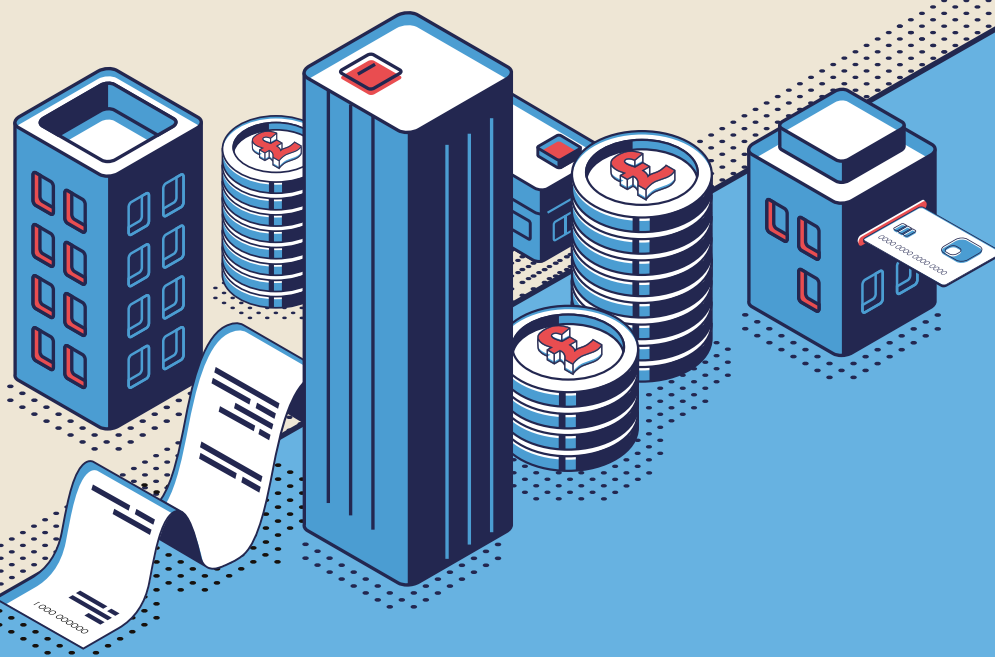
And for businesses that have deliberately been dishonest, the penalty is even greater still and could even end up in criminal charges.



If you are found to have underpaid VAT then you will probably be hit with a penalty and interest on the VAT not paid

Step 1

Understand the payment of expenses in your company



What we are talking about here is the payment of out of pocket expenses to employees.

The very first thing you need to do on your journey to compliance is to **make sure you understand how people are being paid and the sort of things they are claiming for.**

There can't be many companies that don't pay out of pocket expenses but the volume of claims and the way that they get paid varies considerably from company to company.

You may be lucky and find that employees all use the same system and only incur expenses in cash.

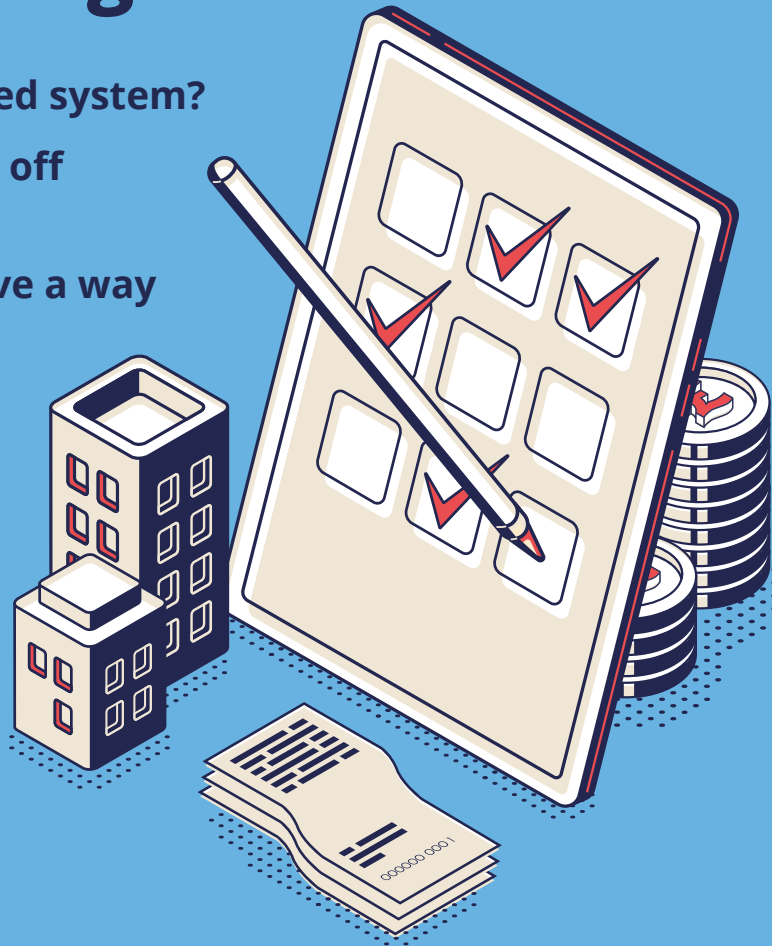
Alternatively, you may be like many businesses and find that the way people pay for expenses alternates between cash, credit card, account and that the company reimburses them all in different ways too.

One of the key things to look for here is record keeping.

- Do you have a formalised system?
- Do expenses get signed off by a manager?
- Does your company have a way of keeping receipts?

At this point, we should point out that **HMRC says that they don't expect you to keep every receipt but they do expect you to be able to evidence that you have a robust checking system in place.**

However, the best way of checking that someone has actually incurred an expense and of evidencing this fact... by keeping the receipts (or at least an image of them)!

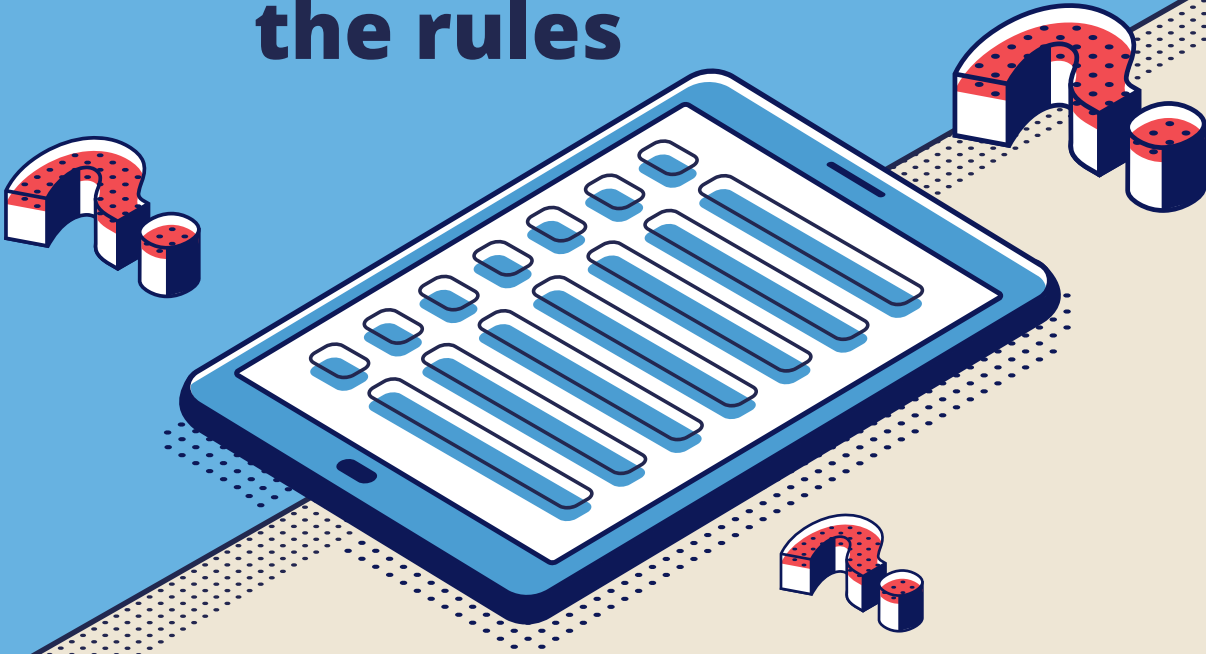


It's a good idea to record your findings. You don't need to be too formal about this but just keep a journal of what you have looked at and what you found as this may come in handy later on.



Step 2

Understand the rules



For most accountants, knowledge of VAT rules comes with the territory.

You will probably have covered the subject in training and you may well have some knowledge of VAT from your working experience but this is a good point to give yourself a bit of a refresher.

VAT rules seem to change every year and if you haven't done any updates or CPD on the subject then you may be a little rusty without knowing it.

We've produced a comprehensive guide to VAT on expenses which you can [download for free HERE](#).

Also, look for CPD resources from your professional association or on the employer's pages at the HMRC website.

If you have a particularly thorny issue then you may need to contact your company's VAT advisor for clarification.

Step 3

Complete an audit



Now you have a clear picture of how your company is paying for expenses and you have refreshed your understanding of the rules, **you need to check whether the process your company is following is actually compliant.**

In project terms, this is known as the 'as-is' phase.

You want to **take a critical look at the systems and processes your company operates at the moment and see if there are any blind spots that appear.**

Take a sample of some expense claims and make sure you have some of every payment method and a good cross-section of the type of spend.

Check each item and make sure you follow the VAT treatment through from start to finish.

Pay particular attention to things that are given blanket treatment and also to how the finance staff treat expenses when there is some ambiguity about the costs.



Speak with the staff who process the claims but make sure that they know that this is not about finding fault or apportioning blame but merely a compliance check to ensure that the company doesn't need to adjust its VAT policies and procedures.

You want to find out;

- Whether they check every line for VAT and against the company policy
- If every expense has a receipt
- Whether expenses are coded correctly for the right rate of VAT
- If the receipts are good enough evidence that VAT has been paid and to the type of item that has been purchased



Also, ask why they treat certain expenses in the way that they do.



Speak with the staff who process the claims but make sure that they know that this is not about finding fault or apportioning blame

Unfortunately, it is often the case that when you ask people why certain expenses are treated in a particular way they will simply say “we’ve always done it that way” and if you are faced with an HMRC investigation then this excuse won’t be a good enough defence.

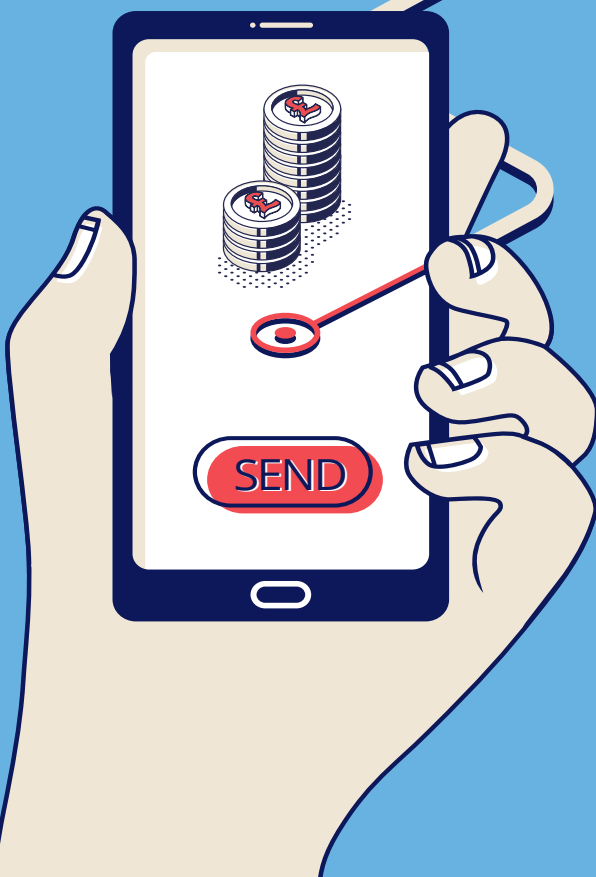
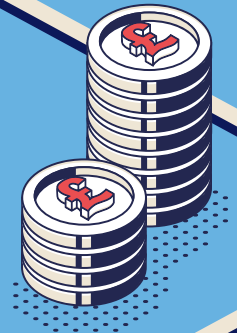
Make sure that you also follow the VAT trail all the way through to the point of making up your VAT return.

This is especially important if your company is running a flat-rate scheme or is exempt or partially exempt. This is because you need to ensure that the input tax on expenses is being claimed back at the appropriate rate.

Again, record your findings.

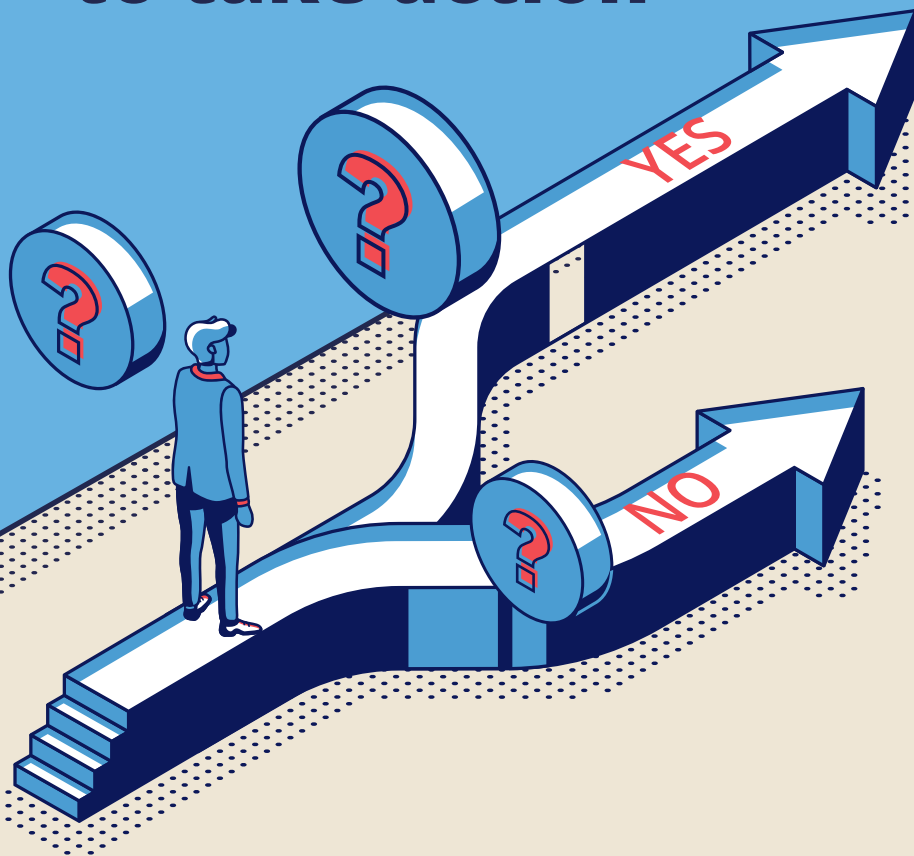
The benefit of doing a start to finish audit in this manner is that it may also bring to light any control issues that might need to be addressed.

For example, you may find that although you are looking at the VAT aspect of expenses you also spot that payments are being made without the claims having been first authorised by the person’s line manager.



Step 4

Decide if you need to take action



You may wish to discuss your findings with your Financial Director, CFO or head of department.

This is where your written journal will be useful.

If everything is fine then you simply need to report this formally and ensure that your findings are documented and saved somewhere for future reference.

This will prove to HMRC that you have not been negligent in your treatment of VAT.

What is more likely is that you do find some areas that need to be addressed.

Take time to analyse what you have found:

- Do all the errors have a common theme?
- Do people pay proper attention to the VAT treatment of expenses?
- Are claims properly documented, signed off and recorded?

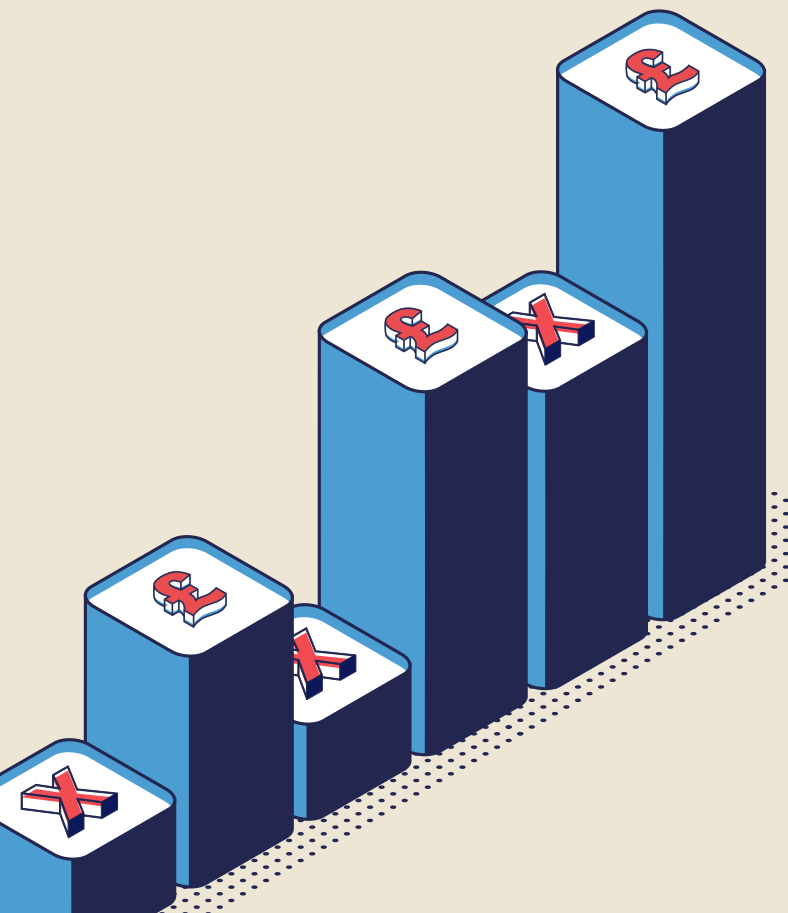


In many cases, the errors are spread about and form no particular pattern but if you find errors that all seem to occur in a particular area then you know that something is amiss.

For example, if you find that one particular finance person always codes train travel as standard-rated for VAT then you know that some more training is needed.

Or maybe there is one particular department that never submits receipts with their expenses.

But, before you speak with your line manager, there is one further step to carry out...



If you find errors that all seem to occur in a particular area then you know that something is amiss

Step 5

Decide what you want to do about it



No manager likes to have problems land on their desk.

What they prefer are problems to be highlighted and presented with the solution (or even a selection of solutions).

So at this point, you need to decide what things you feel will cure the problems.

You may feel that there is one error that continually pops up but that could be easily cured with some training. This may be something as simple as an informal session for one of the team or you may want to do a more general VAT compliance session for everyone.

There might be something structural that you can change, such as having default VAT codes on your expenses system.

Or you may need your manager to get involved and have a chat with the head of the department that is mislaying their receipts.

It always helps to bounce the problem off a colleague too.

Whatever the solution might be, you are best advised to **write a short summary of the problem and the suggested cure before you walk into your manager's office.**

If you find that there are a large number of issues with VAT compliance, efficiency of processing and maintenance of controls then you may want to look at automating your expenses system as a holistic solution.

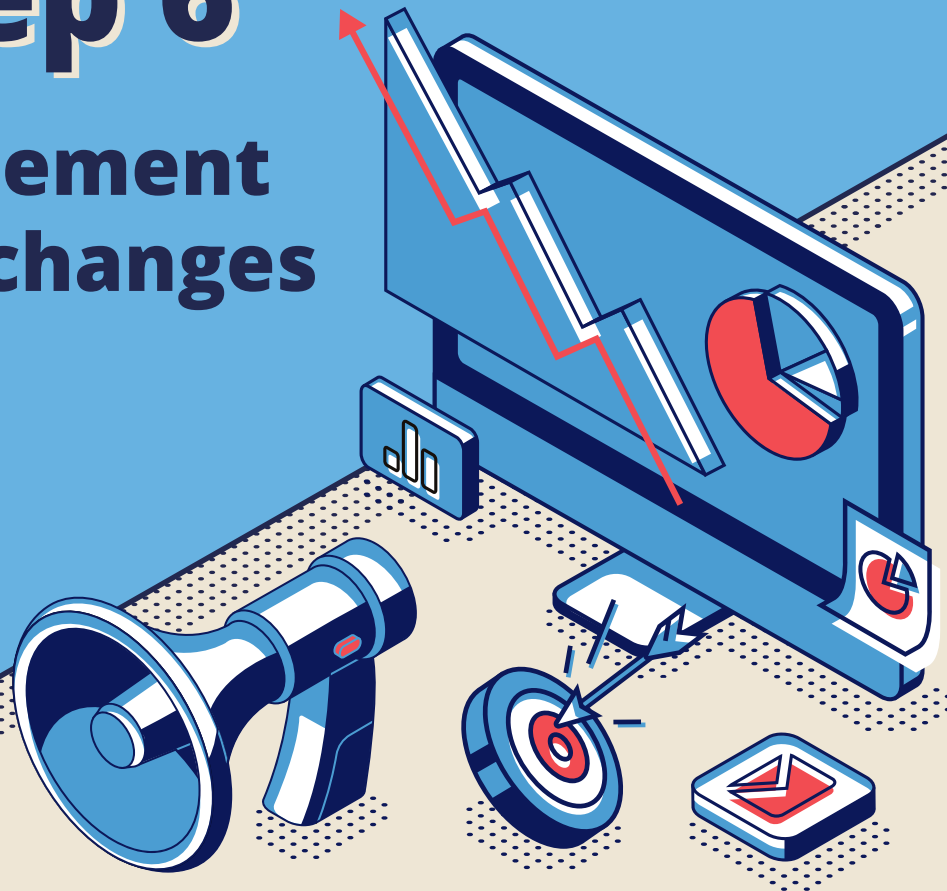
Of course, even if there aren't a large number of issues you may decide that, upon review, there is a large amount of time to be saved by automation.



Write a short summary of the problem and the suggested cure before you walk into your manager's office.

Step 6

Implement the changes



It sounds like an easy thing to do when it's written down but often the trickiest part of becoming VAT compliant is implementing your proposed solution.

We could write a book about change management (as many people have) and space really precludes us from going into great detail here but we suggest that you make sure you approach all but the smallest changes as a mini-project.

Make sure you have a clear idea of where you want to get to and then communicate the goals to the people involved.

Make sure people have the option of contributing feedback and that they feel their input is valued.

Have a clear plan as to how you will tackle the changes and what success will look like when complete.

Step 7

Review



One of the biggest benefits of carrying out a process like this is that you learn a lot along the way.

That's why it is important to have an honest and open review:

- What worked well?
- What didn't work well?
- What would you do differently?



Then **make sure that you schedule a review** every so often, just to make sure that VAT law hasn't changed and that the changes you made have stuck.

Assuming there are no VAT law changes, then once a year should be sufficient to make sure your process is slick, quick and above all compliant.

It makes sense to have some form of informal 'lessons learned' document so that in 12 months' time when you come to look at the whole issue again you can refresh your memory.

In summary

As we have seen, VAT compliance is a very important area and playing fast and loose with the rules on employee expenses can end up costing your company money.

But actually, making sure you are compliant doesn't need to be a chore and there can be some added benefits along the way as you spot efficiencies or better controls that you could implement.

This guide contains our suggestions for analysing your VAT on Expenses compliance but you can use the same methods on many areas of finance, from payroll to accounts payable.

It's simply a method of putting some structure around a review and change process.

We hope you have enjoyed this guide and that it has given you some ideas for how you can refresh your systems. If you're interested in reading more on this subject, check out our '[Ultimate Guide to VAT and Expenses](#)', for a comprehensive and practical view on VAT and Expenses and how to manage it.



**Set out the problem,
decide on a solution,
implement the
solution and then
analyse the results**

The quick compliance checklist

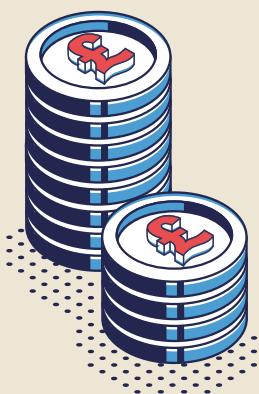
Thinking about reviewing your VAT compliance?

Use this as a handy memory-jogger for the things you may want to look at. It has each of the 7 steps listed from our 'Expenses and VAT - your 7 step guide to getting compliant' guide 'so you can look back at this for more information.



Step	Description	Think about
Understanding payment of expenses in your company	Look at the way your company pays expenses, the payment methods and control process	How many ways do employees get reimbursed? <ul style="list-style-type: none">• Credit cards?• PAYE?• Cash?• Cheque?• BACS or transfer?• Have you documented your findings?

Step	Description	Think about
<p>Understanding the rules</p>	<p>Check the VAT regulations for paying employee expenses</p>	<p>VAT rules change regularly so keeping up to date is vital</p> <p>Subsistence rules often change</p> <p>Check scale rates for fuel</p> <p>Check scale rates for subsistence</p> <p>Be aware of any issues around employee entertainment</p> <p>Have you documented your findings?</p>
<p>Complete an audit</p>	<p>Checking how your expenses are handled in real-life</p>	<p>Are VAT codes being used correctly?</p> <p>Are controls in place?</p> <p>Do expenses get checked properly?</p> <p>Can you evidence the checking process?</p> <p>Do you have receipts or images that prove spending?</p> <p>Have you documented your findings?</p>
<p>Decide whether you need to take action</p>	<p>Is action necessary?</p>	<p>Are there issues?</p> <p>Are the issues serious?</p> <p>Are there clusters of issues that point to one cause?</p> <p>Can you solve by training?</p> <p>Do you need to make system changes?</p> <p>Is this a culture/people issue?</p> <p>Would a new system improve the situation?</p> <p>Have you documented your findings?</p>



Step	Description	Think about
<p>Implement the changes</p>	<p>Begin the change process</p>	<p>Are the changes simple enough to not require a project?</p> <p>Do you have a clear plan of action?</p> <p>Do you know what success looks like?</p> <p>Have you communicated the changes to everyone affected?</p> <p>Have you documented your findings?</p>
<p>Review</p>	<p>Carry out an honest review of the process</p>	<p>What went well?</p> <p>What went badly?</p> <p>What would you do differently?</p> <p>Have you scheduled another review?</p> <p>Do you have a way of keeping up with VAT changes in the meantime?</p> <p>Have you documented your findings (lessons learned review)</p> <p>Could you use this method on any other troublesome area that you are responsible for?</p>



For more information regarding VAT when it comes to staff expenses, visit our [Master VAT on Expenses hub](#)



[Learn about our easy-to-use expense management software Access Expense](#)

The Access Group

The Access Group has been recognised in The Sunday Times Tech Track 100 in 2019 and is a leading provider of business software to mid-sized UK organisations. It helps more than 32,000 customers across commercial and not-for-profit sectors become more productive and efficient. Its innovative Access Workspace cloud platform transforms the way business software is used, giving every employee the freedom to do more.

Established in 1991, The Access Group, with an enterprise valuation of over £1 billion, employs more than 2,300 staff.

For more information about The Access Group, visit: www.theaccessgroup.com/