

VAT on expenses – what are you missing?





When it was first introduced in 1973, VAT was hailed as a simple tax and, to an extent, it was.

Times change though and what was once a simple tax has morphed into something that can give accountants sleepless nights.

We regularly hear of people saying that one of the biggest areas of difficulty with VAT is on expenses and in this guide, we're going to take a look at some of the issues that can cause problems and show you how to deal with them effectively.

Helping you to master VAT on expenses, we'll look at all of the things which are commonly *overlooked* or not considered, or are good ideas but usually never get around to being implemented.

This will help to give you confidence that your processes are compliant and that you have identified some of the more obscure areas of VAT law.

Common areas of non-compliance



Staff expenses might seem like a small matter and, in the greater scheme of things, it probably is quite low down on most company's priorities.

But there are dangers in not complying with the rules on staff expenses.

Firstly, there is the little matter of penalties and interest charges. If you make a mistake then you could face a penalty and if you act carelessly or deliberately then these can increase markedly.

On top of this, your company will have to pay the VAT that was overclaimed and interest on top of this too.

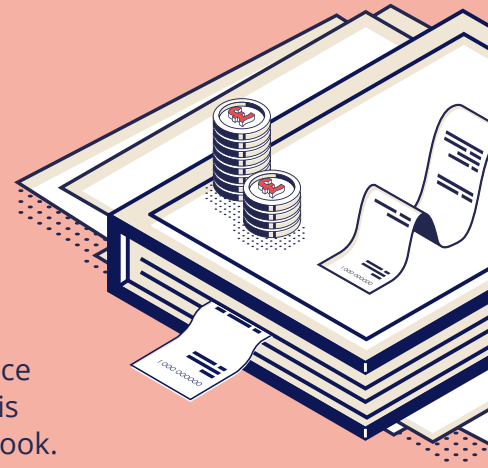
So, complying with the law is important. You can find out more in our [7 step guide to getting compliant](#).

Poor bookkeeping

This is something that can cause the HMRC inspector to want to look further into your business.

If you're selected for an inspection you will need to produce your records and if the general standard of bookkeeping is poor then you can expect HMRC to want to take a closer look.

Frankly, **if your bookkeeping is of a poor standard then you are simply hoping that you are complying with VAT rules rather than knowing that you are.**



Using the default rates

Most accounting systems come with a set of default VAT rates for expenses and if you accept these without understanding them then you could well be heading for trouble.

Setting up your system properly right at the start is important but it is just as important to go back periodically and make sure that your system settings still reflect current rules.

Assuming that the rules don't change

This is related to the above point but often people make an assumption that VAT rules don't change. However, in truth, VAT law is one of the most active areas of the tax statutes.

Keep abreast of any changes through the HMRC VAT newsletters that get sent out automatically if you are VAT registered, check the accounting press for any upcoming issues and make sure you attend any VAT updates given by people like your auditors or bank to keep your knowledge up to date.



Not checking your work



When you are busy doing a very complex job, sometimes it is possible to get just a little bit too close.

Often this means that you don't see what in hindsight appear to be obvious errors or omissions.

It's always worth getting someone else to check through the VAT return figures, especially where expenses are concerned, but if no one else is available then make sure you always go back and check your work for mistakes later on.

Not having evidence

To some extent, this is a forgivable area of non-compliance and it is based on HMRC's own advice.

You see, HMRC say that you don't need to keep receipts under £250.

However, what they do say is that **you need to be able to evidence the fact that you have checked expenses claims and that you have proof that VAT was paid and that the expenses were incurred.**

What is the best proof?

A receipt!

So our suggestion is that you should **encourage your employees to ALWAYS obtain receipts (it's just good practice)** and you should save them, either in hard copy or, even better, as an image attached to the expenses claim, if your system will allow it.

And as a rule of thumb for your expenses policy – no proof, no claim.



Claiming the wrong VAT rate

This is easy to do unless you are really paying attention.

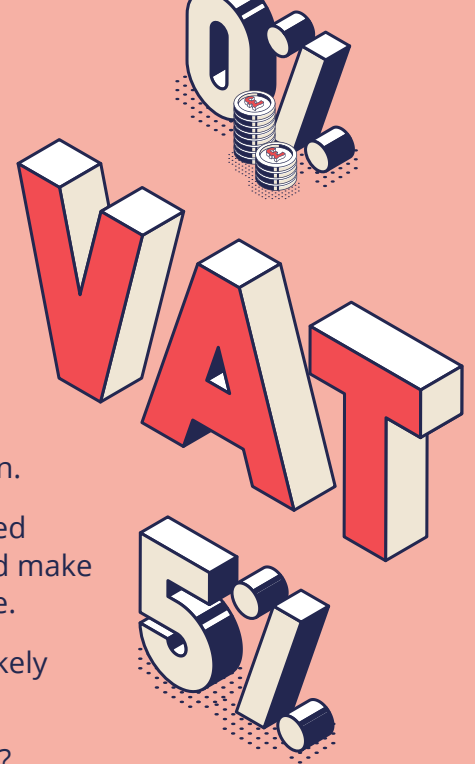
There are many different rules for what has VAT applied and what doesn't so you need to be on your guard and make sure that when you claim, you know what the rules are.

Is there a VAT number on the receipt? If not then it's likely that the vendor isn't VAT registered so you can't claim.

Does the receipt detail what VAT has been charged on?

Many larger companies have systems that indicate what items are VATable and what aren't so check for this.

Is the VAT rate standard? Some things are charged at the standard rate and some at a reduced rate, so **even if you are sure that VAT has been charged you need to make sure that you know what rate has been used.**



Claiming all of the cost of fuel back

Again, this comes back to the HMRC 'wholly and exclusively' rule.

If an expense has been incurred wholly and exclusively for business use then this is fine. However, when processing expenses you do have to take care.

Sometimes, and often this is simply a mistake, employees may claim for something that is actually just for private use.

In this case, the company may be happy to make the payment but for VAT purposes they should make sure that they do not claim it.

This is often the case with directors or owners of companies where they pay for something with a company credit card.



Are you missing out?



There are some areas of VAT on expenses where companies habitually don't claim back everything they could and because of this, your company could be missing out.

Here are a few areas where you may want to check your policy on VAT on expenses..

Not claiming on Staff Entertainment

Let's be clear, **you can't claim back VAT on business entertaining.**

But **you can claim back VAT on staff entertainment.**

Confused?

Business entertaining is where someone from your company pays for something, typically a meal out or maybe tickets to a sporting event, for example, for someone who works for another company.

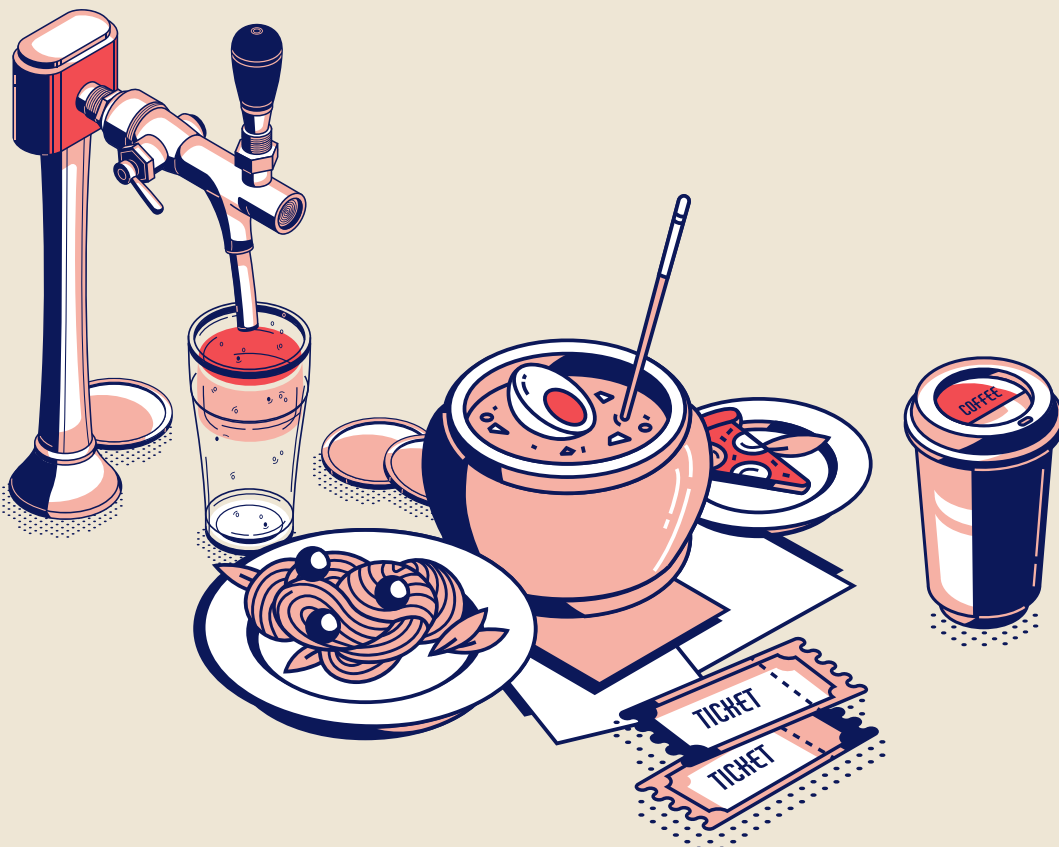
Staff entertaining, on the other hand, is where you spend money on people who work for your company.

A good example would be where the business pays for a buffet lunch for everyone on the last Friday of the month or pays for the Christmas party.

Other examples would be sending staff off to a team-building event or a general staff outing.

The rule is that the entertaining needs to be available to everyone in the company or as a result of their work, for example, you could treat someone to tickets to a West End show as a reward for exceptional work.

Where it's a mixed event with staff and non-staff attendees then you can only claim back the bit that relates to your employees.



Not claiming on subsistence

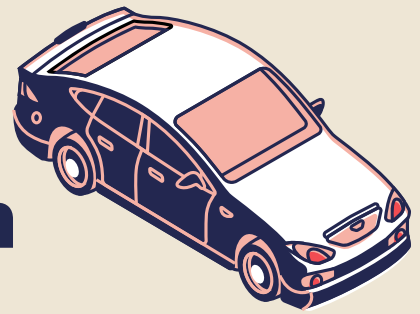
Related to entertainment is subsistence payments.

Subsistence is money that you pay to employees to compensate them for not being able to take their meals at home.

For example, if you send an engineer to work on-site at a client's office and they are out of their own place of work then you can pay for up to three meals and claim the VAT back.

There are some rules around this so check out our [Ultimate Guide to VAT on expenses](#).





Not claiming VAT on Mileage payments

Companies often pay employees back for the mileage they do in their own cars and the maximum rate at the time of writing without a benefit in kind tax liability arising is 45p per mile for the first 10,000 miles.

However, not everyone realises that you can claim the VAT back on the 45p payment even without a VAT receipt.

Now it's important to note that you can't claim VAT back on the WHOLE amount, only that part of the payment that relates to business use.

HMRC produces regular advisory fuel rates that should be used when working out the VAT element of the mileage payment.

Remember, though, that these are the fuel element only, so you'll need to claim back only the VAT or in other words one-sixth of the amount per mile.

For a worked example, let's take the scale charge for a 1999cc petrol car and an employee driving 8000 miles per year.

The business fuel element per mile would be 14p per mile. Divide this by 6 to get just the VAT on the fuel. So in other words $8000 \times 14p = \text{£}1120$ then $1120/6 = \text{£}186.67$ VAT.

This is the amount that the company can claim back on the mileage expense.

Engine size	Petrol amount per mile	LPG per mile
1400cc or less	12p	8p
1401-2000cc	14p	9p
Over 2000cc	21p	14p
Engine size	Diesel per mile	
1600cc or less	9p	
1601-2000cc	11p	
Over 2000cc	14p	

Fuel scale rates as at 31st December 2019

[HMRC publish scale rate charges](#) and you can find out more in our [Ultimate Guide to VAT on expenses](#).



Not claiming on parking

Some parking is provided by big national companies, some by local authorities and some by small, less formal providers.

On-street parking is generally VAT free and so you can't make a claim.

However, off-street parking can be VATable and generally speaking there will be a VAT number on the ticket where this is charged.

Smaller operators will often be below the VAT threshold and won't have charged VAT.

The message here is that you need to check your tickets and if there's a VAT number it will have VAT paid.



VAT on expenses in summary

VAT can be a bit of a minefield and sometimes it can seem that it is easier to just not bother to claim payments for expenses.

However, as we have seen, there are quite a number of areas where businesses might be missing out and in some cases, this could add up to a significant amount of money.

On the other hand, it is also important to make sure you are fully compliant, otherwise a haphazard approach could end up costing your business cash.

One of the best ways to make sure that things aren't getting out of hand is to have a proper review process and regularly update your policy in line with the latest regulations.

We'd also say that you can save yourself a lot of trouble by automating your expenses payment system which will automatically apply any policy you set to expenses claims.

This will save you time, money and reduce the likelihood of being found to be non-compliant.

You'll find more information in our [Ultimate Guide to VAT on Expenses](#), part of our [Master VAT on Expenses](#) series.



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



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