

## MPs Expenses – what lessons can we learn?

The fact that MPs expenses claims are still making front page news does show how significant the fall-out may be, if an organisation is seen to have an ineffective expenses policy. History also tells us that, when major company fraudsters have been caught with their hands in the till, their first steps on the slippery slope were often taken when a few expenses fiddles 'went unnoticed'!

Whilst a number of MPs have been requested to repay certain costs, it is important to recognise this is not a typical outcome in the event of an HMRC review. The Revenue's normal practice, if it establishes that taxable payments have been claimed under inadequate policies or controls, is to seek recovery of any tax/NIC owed from the employer (rather than the employee), often on a grossed up basis.

This newsletter therefore aims to put the MPs expenses furore into context for the average employer, and provides some general guidance for anyone thinking of writing or updating an expenses policy document or claim form process.

### Expense policy basics

To have effective controls, the right messages must be conveyed throughout the organisation. If you have an over-generous policy that is 'leniently' interpreted from the top, can there really be any surprise if employees take liberties?

So let's start by asking a series of questions. You are writing a new or updated expenses policy, and you need to get the essentials right. Do you want it to:

- confirm essential control procedures, e.g. to make sure that all costs are receipted wherever possible, and are checked and countersigned by appropriate persons;
- be clear and concise on what items can and can't be claimed, and how they should be claimed;
- ensure that staff are adequately reimbursed (but no more than that) for any additional costs they incur whilst working and;
- align the policies to relevant tax exemptions and HMRC practices, as closely as possible, in order to minimise your tax and NIC risk as employer?

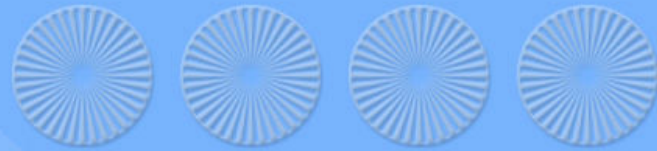
If you answered 'none of the above' then perhaps you also wrote the much maligned MPs 'Green Book' expenses policy? However if you can answer 'all of the above' then you are probably following best practice and your policies will be effective. You have every chance of minimising your tax/NIC exposure, your business will probably be assessed as having a low non-compliance risk, and the chances of HMRC knocking on your door are significantly reduced. Overall, if these rules are followed in practice, your costs will be well controlled and the risk of 'abuse' will be minimised.

### Travel expenses

Travel expenses are usually the main part of an expenses policy. Often a travel policy will start by recognising different types of worker, e.g. employees with travelling appointments, those with a 'permanent' workplace, and any staff who are home or area based etc. Having done so, it is then easier to define what constitutes a 'business journey', so that allowable costs of travel, accommodation and subsistence may be claimed (or that any taxable costs are identified).

Many policies will then incorporate additional company controls or procedures that apply to particular types of travel, e.g. air fare policies, standard of rail travel permitted, use of preferred travel suppliers, & business mileage reimbursement rates (for both company cars and employees' own vehicles).

Sadly you will not be able to replicate the Green Book policy on travel, even in the unlikely event that you wanted to! MPs have enjoyed significant tax exemptions, well beyond those available to the average man in the street. Ordinary employees (who have a normal or "permanent" workplace) are only able to claim a deduction for additional costs of business journeys if travelling to a temporary



workplace. Similar deductions would apply to employees assigned to a temporary workplace for an extended period, providing that the secondment is unlikely to last more than 2 years. As with other expenses, travel would also have to be incurred as an objective requirement of the job, rather than at the individual's preference.

Scale rate allowances are one way of saving money and limiting costs, and the HMRC guidelines for subsistence rates (published last year) are a useful starting place. Bear in mind that all scale rate expenses require specific HMRC agreement before payment may be made on a tax free basis.

### **Other Expenses**

The details within this section of your expense policy would depend on the size of the organisation and the type of costs involved. The most common areas include business or staff entertaining (different tax rules apply to each), telephones (mobile & home), broadband, subscriptions, relocation costs, business assets provided (e.g. laptops), 'home office' costs, and purchases of business supplies.

Within a larger organisation it may be a good idea to ask around (or review a few actual claim forms) to confirm whether distinct business units or staff grades are permitted to claim for certain items on different bases. If so, rather than operating two or more separate policies, it is usually possible to incorporate any differences within separate appendices of the same policy.

### **Dispensations**

Remember that dispensations, i.e. where HMRC agrees that allowable expenses payments need not be reported on forms P11D, will only apply 'in the circumstances as stated'. These agreements are not transferrable from one business to another, therefore fundamental changes in company structure or policies would warrant a request for an updated dispensation.

Whilst dispensations can now be requested online, it is important not to over-simplify the application. To ensure the application is comprehensive it may be a good idea to enclose a copy of the new expenses policy itself. A well prepared and documented application should not of itself create wider and unnecessary HMRC interest in your organisation, as it is not HMRC practice to use dispensation applications as 'fishing trips'.

In conclusion, prevention is obviously better than cure, and an effective expenses policy is important in sending out the right messages, both within and outside the organisation.

### **About us**

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