

# Insight into Expense Compliance: The changing regulatory landscape of SME expense compliance

Expense management never used to be top of the agenda, but with the introduction of the Bribery Act, the recent MP Expense scandal and the HMRC focus around tax compliance it has quickly gained importance as directors and business owners look to ascertain whether their expense process ensures compliance with company policy and more importantly, satisfies the authorities.

For many of the UK's leading businesses having a fit-for-purpose solution that provides their businesses with the necessary tools to keep on top of both company policy and external compliance is of strategic importance. Many of these SMEs (Small and Medium Sized enterprises) have found that compliance best practice can be achieved by automating their expense management process.

## Ensuring external compliance

HMRC has identified that poor-record keeping is a major contributor to SMEs underpaying tax, and in its recent spot checks pilot, as part of the Business Records Checks programme (BRC), it found that 40 per cent of the businesses visited, had "issues with their record keeping" and in 12 per cent there were "seriously inadequate records".<sup>1</sup>

Since carrying out this pilot HMRC has announced that it plans to carry out business record checks across 12,000 companies by April 2012. Businesses found not to be keeping the correct records could be fined up to £3000.

All businesses operating in the UK have a legal obligation to meet statutory compliance when managing and reporting on their expense spend, and the cost of not complying can be very damaging to SMEs who may be trying to build their brand into an household name. An HMRC investigation could negatively impact their reputation, as well as affect their bottom line due to the size of potential fines coupled with dedicating resources to deal with any issues.

## Corporation tax, income tax & National Insurance

HMRC has clear definitions of what a business expense is, what constitutes business travel and when an expense becomes a benefit in kind<sup>2</sup>. It is essential that companies are aware of the relevant rules governing expenses and that they keep abreast with changes in regulation. Expenses is an area of company spend that can be complicated and difficult to manage when it comes to calculating income tax and National Insurance Contributions (NICs) for any claims that fall outside of any dispensation or are deemed a benefit in kind.

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Automated expense management systems significantly minimise the risks around regulatory compliance as they can assist in the application of complex tax rules and provide in-built auditing capabilities. Some go further by capturing the data required for reporting on expense spend for corporation, income tax and NICs purposes. They also enable access to detailed reporting of PSA or P11D information.

### VAT reclaim

In order to properly claim for VAT from expenses, it is important to know whether an expense has an element of VAT liability and report this accurately. An example of this is establishing the correct VAT rate for parking charges. When vehicles are parked on the street the VAT rate is zero, however when parked in off street car parks payment attracts the full VAT rate. Therefore, in order to accurately calculate VAT reclaim for this expense, companies need to record where the vehicle was parked.

As a result of the complicated nature of VAT reporting many companies decide to write off VAT to which they are entitled due to the lack of in house knowledge, or because it is time consuming and costly to ensure correct calculations especially when using a manual system.

In addition to this; businesses miss out on VAT because they do not have the supporting evidence required. According to the GlobalExpense\* benchmark report 2010<sup>3</sup>, for business mileage alone, British businesses failed to reclaim £124 million in VAT just because employees did not provide the appropriate receipts with their expense claims. With the VAT rise of 20% in 2011 this figure is set to rise to £141 million unless businesses improve their procedures.

Using an automated solution can help to identify expense types and capture the required information to ensure the correct amount of VAT is paid or reclaimed. It is also easy to automate receipt submission, and with the development of smartphones with built-in cameras it makes it possible to provide digital images of receipts and/or supporting evidence as expenses are incurred.

### Mileage

With UK employees travelling over ten billion<sup>3</sup> business miles a year, keeping track of mileage can be a real issue for SMEs. Business mileage may not always be accurate, and it may be difficult to distinguish between what was business and what was personal, however, it is essential when reporting to HMRC that mileage calculations are accurate.

It is important to note that the increased cost of fuel does not directly correspond with HMRC's Advisory Fuel Rates, as they do not reflect the current price at the pump. This could impact on employees' behaviour when reclaiming mileage amounts as they may feel they are not fully reimbursed for the true cost of their trip.

Mileage claims tend to be the most manipulated of all expense types when it comes to exaggeration and automated solutions can help to deter employees from making fraudulent claims and ensure that the business is meeting its obligations to HMRC for VAT reclaim purposes. An automated solution with incorporated mapping technology helps with mileage verification for each journey claimed, automatically checking the distance travelled. This also provides companies with granular information enabling strategic decisions around offering other forms of transport, such as using the train instead of flying as part of the travel policy, if it is the more cost effective mode of travel.

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## Addressing internal compliance

Although much emphasis is placed on statutory compliance, as it is perceived at a higher level of risk, it is inherently linked to internal policy compliance and therefore, both need to be aligned within the business. In 2010 UK businesses paid £10bn to reimburse approved claims, of which an estimated £1bn was reimbursing expense claims that did not comply with their corporate expense policy.<sup>3</sup>

Many SMEs now have an internal policy document for booking travel and claiming expenses as a first step to establish control over this type of spend and to avoid damage to their financial wellbeing. However, it is questionable whether employees are aware of written company policies. In the GlobalExpense\* Benchmark report<sup>3</sup>, it was reported that only 35 per cent of people felt confident about what they could claim within their company's policy.

In a manual system, without dedicated resources checking claims against the policy document, there is little a company can do to guarantee that employees are adhering to policy. The benchmark report also identified that 94 per cent of interviewees reported that they had never had a claim rejected.

Automation can help to highlight where problems may exist by enforcing the company policy before the expense occurs. The system can automatically make it obvious to employees which purchases are in policy and which are not. It also makes it quick for approvers to investigate the flagged out-of-policy claims. If there is, a high proportion of out-of-policy claims, this could suggest the need for a review of policy or additional training for employees or approvers.

Research by CFO Europe<sup>4</sup> found that 90 per cent of companies that had fully integrated travel and expense management systems were 'good' or 'excellent' at getting employees to comply with policy compared to 60 per cent that were not fully integrated.

In research carried out by Aberdeen Group<sup>5</sup>, it was found that 49 per cent of companies said their top pressure in their expense management programme was improving compliance to company policy. However, company culture and the approach to change management also play a significant role in the implementation of good expense management.

## Gaining control of compliance

What is important for any small or medium sized business wanting to increase compliance is that they gain control and visibility into their travel and entertainment spend so they can report accurately both internally and externally to HMRC. One way to do this is to use an automated solution that gives users the latest innovations that offer them increased control and visibility into business travel and expenses.

The reporting capabilities of automated solutions allow companies to access centralised data and they can use this to create detailed and timely reports. This makes it quick and easy to establish, for example, spending trends by client, or by employee. These detailed reports also give companies the essential business intelligence needed to identify possible fraud, or to identify where internal policies may need to be strengthened.

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These reports can also help to gather data when reporting on external compliance issues. Reports can be created and audits run to ensure that the business is meeting its legal requirements when reporting accurately to HMRC, or to ensure the company is compliant with the Bribery Act 2010. Data held on the system can also help report on carbon emissions from business travel as part of a carbon reduction programme or meeting the Climate Change Act 2008 targets, and the travel and expense data could be used to ensure that the business is meeting its obligations towards employee duty of care.

### In Conclusion

Establishing a fit-for-purpose process that supports your business in meeting its internal and external regulatory obligations is key to ensuring that expenses are compliant.

SMEs using Web-based, automated expense solutions to manage the process find that these systems allow for easy implementation and management of the process, they keep both initial and on going costs low, but more importantly, they can help to manage the risk from the ever-changing landscape of regulatory compliance.

At Concur we understand expense compliance, but we also understand that expenses are an everyday business process that needs good and effective management. Our experience of helping companies like yours to look, not just at how they could best manage compliance issues, but also at how they could improve their expense management means that we can deliver true value across the whole process for your company.

If you would like to know more about how you could benefit or if we can help you to create your own business case and ROI, please contact us on 00800 4551 6697 or go to our website: <http://www.concur.co.uk>

1. "HM Revenue & Customs (HMRC) has announced an extension of its Business Records Checks programme." (22 September 2011) <http://nds.coi.gov.uk>
2. <http://www.hmrc.gov.uk/guidance/480.pdf>
3. GlobalExpense (March 2011) "Employee Expenses Benchmark Report 2011"  
\*GlobalExpense was acquired by Concur in July 2011
4. <http://www3.cfo.com> CFO Europe Research March 2009
5. Aberdeen Group (2011) "Expense Management for a New Decade"

## About Concur

Concur is a leading provider of integrated travel and expense management solutions. Concur's adaptable Web-based and mobile solutions help companies and their employees control costs and save time.

Learn more at [www.concur.co.uk](http://www.concur.co.uk)

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