

HMRC Spot Checks— What they mean and how SMEs can ensure their expenses comply



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HMRC spot checks— What they mean and how SMEs can ensure their expenses comply

Increasing amounts of red tape, paperwork and keeping business records up to date can be a real challenge for small and medium sized enterprises (SMES) especially when it diverts time away from doing business. In a recent survey by the Federation of Small Businesses they found around 30 per cent of small businesses believed that government regulation was their greatest challenge to growth.¹

However, up to date and accurate records are not only vital to ensuring that a business is operating profitably, they are also essential in making sure that the correct tax and National Insurance is being paid to HMRC.

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HMRC have stated that they want financial records not just to be accurate, but also appropriate for the size and nature of the business. In a recent press release from HMRC it was reported that they plan 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.

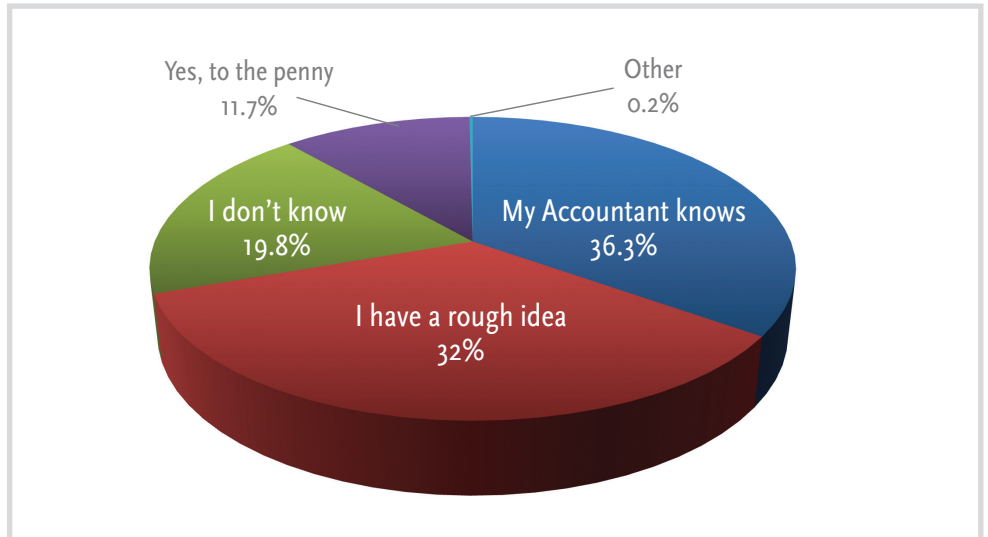
Keeping expense records up to date

SMEs need to know that they are acting in a way that will maintain profitability and when expenses are major expenditure on the balance sheet, it is absolutely imperative to know that the business is keeping costs within previously forecast budgets.

It is also important to establish good practices in order that expenses claimed are within company policy, that it is easy to check the legitimacy of claims, and that expense spend data is available to be used as management information to make decisions about on-going and future expense spend. Especially when as found

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in the GlobalExpense* Benchmark Report⁴; poor expense processes costs UK companies an estimated £1.3bn in exaggerated, fraudulent or out of policy claims. Also, SMEs need to have insight into their expenses; in a recent survey commissioned by Concur, opinionmatters.co.uk asked 400 UK SMEs if they knew how much they paid out in expenses each month and less than 12 per cent of companies knew to the penny.³



SMEs need to protect their bottom line, cash flow and reputation by complying with HMRC, thus gaining visibility into what is being spent is important. It is also essential to gain control over what is being spent to avoid paying out unnecessary costs in business expenses, mileage, or missing out on reclaiming VAT.

Ensuring mileage is accurate

Much of business travel for SMEs is mileage, between 39 and 40 per cent, compared to between 12 and 20 per cent of expense on air travel⁴, and therefore businesses should have an accurate way to report mileage to ensure that they are complying with HMRC's mileage rates.

Using an automated solution that accurately records mileage, even for trips that are multi-leg by using the latest map technology means that it is easy to establish the actual mileage incurred.

Ensuring VAT reclaim is accurate

HMRC will want to certify that if SMEs are claiming back VAT from expenses; that these records are accurate, but it is also beneficial for companies themselves to make sure that they are claiming back all the VAT that they can from their expenses.

Essential to claiming back VAT is receipts. In a recent study commissioned by GlobalExpense* it was found that a lack of receipts, when reclaiming mileage costs, is thought to be costing businesses £124million a year in missed VAT reclaim opportunity.⁴

SMEs who use an automated expense solution to record claims find that it is easy to identify claims where there is VAT reclaim potential at the time of entry, and therefore also make certain that the right data is input from the receipt.

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Attaching receipt evidence

Businesses need to be able to confirm that expenses are legitimate especially when expenses for travel, mileage and entertainment need to comply with HMRC's rules.

SMEs choosing to use an automated solution will find that it is easy to add receipts, and with the development of smartphones with built-in cameras it is easier than ever to provide digital images of receipts and/or supporting evidence as expenses are incurred.

Auditing, checking and validating expenses

In SMEs where staffing costs may be the highest single cost, keeping headcounts to the minimum is important to companies wanting to remain in profit.

Being able to quickly and easily administer expenses, with an automated solution, could mean that SMEs manage their expenses without dedicated resources in accounts payable or similar spending days each month validating expenses against policy, checking claims have the correct evidence, or that they have been authorised and are ready for paying.

Further time and effort can be saved by using an automated solution when data feeds from suppliers and corporate card providers are used to prepopulate expense claims, and therefore error prone data entry is no longer an issue and the accuracy of claims against the feed data is easy to establish.

Accessing business intelligence quickly

Access to timely business intelligence from financial records is an important issue for SMEs who want to stay profitable, and being able to quickly create management information is essential for those who are looking for visibility into, and control of, expense costs.

Using an automated solution means that business intelligence is quick and easy to report. Having this data to hand means that SMEs can quickly see where they are spending money, and whether they are meeting statutory compliance.

A solution to keep expense records up to date

Though SMEs find it difficult to find the time to keep business records up to date, there are IT solutions out there to help them.

Many of these solutions are now Web-based, that is; they use Software as a Service (SaaS) technology to deliver the software service to users. They are seen as a low cost option to improve business processes and record keeping because they require little or no additional infrastructure, minimal on going maintenance costs and can guarantee a continuous service, with only a regular payment to the service provider. This is particularly attractive to SMEs who do not have dedicated resource to support software systems. A Web-based service is also attractive because it is easily scalable and therefore can grow to fit the size of the business.

In conclusion

Business records provide essential information to SMEs but they need to be kept up to date, to help them stay profitable but also to comply with tax regulations.

As a business record, expenses are easy to keep up to date using an automated solution and a Web-based service is an inexpensive way to implement an expense management process. Many expense management solutions will interface with existing payroll, HR and finance systems already in place. In addition to this, these solutions allow SMEs to integrate expense policies, to quickly and easily audit and report on business intelligence contained on the system.

Using a solution like Concur; SMEs can ensure that when it comes to their expense records they are accurate to meet HMRC's business record checks, but also that they give them the information they need to help comply with HMRC's expense, income tax and VAT rules, whilst saving time and money for the business.

1. Dewsnap, W (2009) "More hats than the Queen: The Finance Director in the Post Credit Age." Exact
 2. "HM Revenue & Customs (HMRC) has announced an extension of its Business Records Checks programme." (22 September 2011) <http://nds.coi.gov.uk>
 3. Research carried out by opinionmatters.co.uk in March 2011 with a sample of 401 SMB owners in the UK where the SMB is a company with 249 employees or less.
 4. GlobalExpense (March 2011) "Employee Expense Benchmark Report 2011"
- *GlobalExpense was acquired by Concur in July 2011

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

The logo for Concur, featuring the word "Concur" in a white, sans-serif font with a registered trademark symbol (®) to the upper right. The letter "C" is significantly larger than the other letters and has a white dot in its center.

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