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# Expenses and Benefits Policy Manual

This document describes the procedures and policies in place for the proper administration of expenses and benefits and of the engagement of contractors. Adherence to the guidance in this manual will assist in preventing unexpected PAYE or NIC liabilities from arising.

## Expenses and Benefits Policy Manual (the Manual)

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1 – Designated Expenses Claim Form

## Expenses & Benefits Policy Document

### Part 1 – Administration of expenses and engagement of contractors

#### Introduction

- 1 The information and procedural instructions in this Manual are for the guidance of all directors and employees of the company. Unless otherwise stated, the term employee refers both to directors and employees. The policies have been prepared in the light of current income tax regulations and the Tax/NIC treatment is/has being agreed with HMRC.
- 2 Subject to specific benefits in kind and taxable expenses mentioned in Part 2, and provided that the procedures outlined in the Manual are followed, all other expenses will be covered either by:
  - a. a form P11D Dispensation issued by HMRC confirming that the expenses are allowable for tax purposes (see 5), or
  - b. an annual PAYE Settlement (PSA) under which the company agrees to pay the income tax and NIC due on behalf of its employees (see 6).
- 3 In the event that an expense claim is contemplated in respect of any item not included in this policy document, or an employee has a query relating to the payment of expenses under this policy the matter should in the first instance be referred to the finance director.
- 4 At the end of each tax year the Company will prepare a form P11D in respect of each employee who has received taxable expenses and benefits. The form will be submitted to HMRC by 6 July each year and a copy provided to each employee. The copy form will be required by employees completing an annual Tax Return.

#### P11D dispensation

- 5 The Company holds a P11D Dispensation Notice dated 9 September 2009 but has applied for a revised Notice to reflect current procedures. The updated Notice will cover the following non-taxable expenses:
  - a. Business Entertaining
  - b. Business travel and subsistence
  - c. Reimbursement of itemised business calls from a home telephone
  - d. Uniforms and protective clothing
  - e. Approved professional subscriptions

#### PAYE Settlement Agreement (PSA)

- 6 The Company will, voluntarily, meet the tax charges on the following benefits:
  - a. gifts and incentive awards
  - b. provision of food at meetings where only employees are present
  - c. late night meals
  - d. excessive overnight personal incidental expenditure (subject to limits)

#### **Expense reimbursement procedure (excluding Company Credit card purchases)**

- 7 It is the policy of the Company that employees are reimbursed for the actual cost of expenses incurred wholly, exclusively and necessarily in the performance of their duties. Employees are expected to minimise costs without impairing the efficiency of the company. In general, reimbursements will be made on production of receipts or invoices, although in limited circumstances where a receipt is not available or cannot be obtained (eg coin operated machines or car park charges), expenses may be reimbursed for which receipts are not required.
- 8 Expenses incurred on behalf of the company are to be recorded in detail on the designated expenses claim form [Appendix 1] and should be completed in accordance with the guidelines in this manual. Claims should be made by the 15th of each month following the month in which the expenditure was incurred. Claims must be supported by receipts wherever the supplier can reasonably be expected to provide a receipt.
- 9 Expenses will be reimbursed by BACS around 20<sup>th</sup> of each month.
- 10 Each claim must be signed by the claimant and the form authorised by his or her board director. Shareholder claims must be authorised by the finance director.
- 11 On no account should a person authorise his or her own expenses.

#### **Company Credit card expenditure**

- 12 Where a company credit card is made available to an employee it should be used solely for business purchases and only in an emergency may the card be used for a personal item. Card holders will be sent a copy of each monthly card statement which should be reviewed and a full description of each business item provided, preferably by completion of a separate claim form itemising each entry or by analysing each entry on the statement itself. Either way, sufficient information must be provided to demonstrate the business nature of the expenditure or event.
- 13 As a minimum, the following details should be provided in support of each entry:

- a. where the cost represents travelling or subsistence, the extent of the business journey, the mode of travel (if not obvious) and the reason for the journey
  - b. where the cost represents Business Entertaining (see 25) the purpose of the entertaining, the representative company or firm being entertained (or project name etc) and, wherever possible, the names of the individuals being entertained
  - c. in any other case, a description of the cost and the business reason for the expenditure
- 14 The cost of any exceptional personal items met by a company credit card must be repaid back to the company immediately upon receipt of the relevant statement failing which the costs will be deducted from the next salary payment.

### **Use of consultants and subcontractors**

- 15 Care should be taken to ensure that consultants and subcontractors are not regarded as the Company's employees which could lead to a PAYE and NIC liability. Workers who are not employees should only be taken on through either:
- a. - a recognised employment agency (agency workers) or
  - b. - a limited company (limited company workers)

### **Agency workers**

- 16 Where staff working as temporary employees or casuals are taken on through a formal employment business or agency, the PAYE/NIC due should be met by the agency under the HMRC agency regulations. However, where the agency workers are regarded as self-employed they should not be seen to operate under the Company's direction, supervision and control.
- 17 The Company has contractual arrangements in place for workers to be supplied by Agency Intermediaries. Where those workers are deemed to be self-employed the Company has a responsibility under the intermediary agency regulations to ensure that they are not working under the direction, control and supervision of the Company or of the Company's own clients. In any circumstances where deemed self-employed contractors are considered to operate under the Company's (or the Company's clients') direction, control and supervision, the relevant agency will be notified and the agency liable for any PAYE and NIC.
- 18 It is expected that site managers will identify any sub-contractors considered to be working under direction, control and supervision.
- 19 Self-employed sub-contractors supplied by intermediary agencies are expected to use their own time sheets and expenses claims or use documentation provided by agency. They should not use Company

supplied documents or have access to the employee expenses system.

### **Engagement of limited company contractors**

- 20 There should be no PAYE/NIC risk to the Company of engaging workers through limited companies (often called personal service companies) provided that proper contracts are in place and the Company has not assisted in procuring the limited company for the worker.
- 21 It is important that each limited company supplier has signed the relevant engagement contract.

### **Part 2 Expenses and benefits provided by the company**

#### **Entertainment**

- 22 The tax rules on entertaining expenditure differ depending upon whether the entertaining is regarded as Business Entertaining (ie the entertaining of persons from outside the organisation) or Staff Entertaining (ie hospitality provided solely to employees). Employees involved in entertaining or the accounting and coding of entertaining expenditure should ensure that they are familiar with the rules.
- 23 Entertaining is defined as “hospitality of any kind” and so has a wide ranging definition.

#### **Business Entertaining (UK excluding overseas trips)**

- 24 The necessary costs of entertaining business contacts will be reimbursed on production of receipts. Unless the expenditure is met by way of company credit card (in which case see the guidance in 12) the following information must be shown on expense claim forms submitted for reimbursement:
  - a. the name(s) of attendees
  - b. the organisation they represent
  - c. the purpose of the entertainment
- 25 Costs which are incidental to business entertainment (for example, the cost of a taxi to a restaurant) should be treated as business entertainment on the expense claim form (and not, for example, as travel).
- 26 Where the main reason for the expense is the entertaining of individuals outside of the organisation, the whole cost of the event or entertaining should be coded to Business Entertaining including the cost relating to any employees present.
- 27 It is important that all relevant Business Entertaining costs are properly categorised since these fall to be disallowed to the Company as a tax deduction. If they have not been identified and disallowed, the

cost may be treated as a benefit in kind on the employee by HMRC.

### **Employee Entertaining**

- 28 Where only employees are present when hospitality is provided, the full cost should be allocated to Employee Entertaining. The Company will meet the grossed up tax and NIC liability through its annual PSA (see 6). Employee entertaining includes the cost of:
- a. Staff dinners and other meals taken at or near the employee's place of work (including breakfast snacks)
  - b. Late night working meals
  - c. Retirement and other similar functions (apart from the cost of one annual function)
  - d. Personal overnight incidental expenses when travelling on business (including bar bills) in excess of HMRC limits (see 60)
  - e. Working lunches on site
  - f. Any other reward meals or entertaining
- 29 The cost may be ignored where the provision consists only of tea, coffee and biscuits etc.
- 30 The cost of an annual function open to all employees and costing no more than £150 per head, may also be excluded.

### **Employee gifts and awards**

- 31 Gifts and tangible awards made to employees will normally be regarded as Staff Entertaining and should be allocated accordingly. The Company will meet the grossed up tax and NIC liability on any gifts through its annual PSA (see 6). Any cash awards must be paid through the payroll and PAYE and NIC applied in the normal way.
- 32 Exceptions include small gifts of a personal nature such as flowers or boxes of chocolates on an anniversary or other event.

### **Business Entertaining Overseas**

- 33 Whenever hospitality is provided to third parties overseas, it is important firstly to establish whether the entertaining is regarded as business or non-business (social) entertaining. HMRC defines these as:

- a. 'business entertainment' of clients - eg discussing a particular business project or forming or maintaining a business connection
  - b. 'non-business entertainment' of clients - eg entertaining a business acquaintance for social reasons
- 34 Where it is considered that the entertainment is purely social (ie a non-business event as defined above) then the costs relating to the director and his spouse and/or children should be treated as a benefit in kind and reported on the director's form P11D. The remaining costs will also be taxable and the resultant liabilities will be met through the company's annual taxed award scheme TAS).
- 35 Where a business motive or reason for the entertaining overseas has been identified (such as an overseas trade conference where the itinerary includes a substantive business content) then the whole cost may be treated as a business entertaining expense. This could include the costs of an accompanying spouse where his or her attendance is considered necessary (eg where the spouse is required to perform substantial duties as a host or has a relevant skill such as a language skill).
- 36 Where the attendance of a spouse, or even children, is considered necessary for the well-being of the director and/or for the director to function at his best throughout the event it may be possible to regard their costs as being business related but this would depend on the type of event and sufficient evidence would need to be supplied to support any claim. HMRC would look closely at any such claims.

### Summary of tax and P11D position on overseas entertaining events

- 37 The Company operates in a market where the entertainment of customers overseas is considered a necessary part of business. However, the tax position of each overseas event should always be considered carefully and as a general guide, the following steps should normally be taken:
- a. Where the overseas entertaining is considered to be no more than social entertaining of a business customer or acquaintance – **The director's costs and those of his spouse and children, should be entered on to the appropriate form P11D. The remaining costs should be reported through the annual TAS.**
  - b. Where there is a particular business reason for the event (ie it is considered to be more than the simple entertaining of business acquaintances, and details of the specific business motive for the event have been provided) but the attendance of spouses or children are not considered necessary – **The costs relating to spouses or children should be included on the director's form P11D.\* The director's costs may be regarded as business entertaining.**
  - c. Where there is a definite or specific business reason for the event and there is also an identifiable business reason for the spouses to attend the event – **The whole cost will be**

**allowable and no entry is required on the director's form P11D.**

- 38 Where the entertaining is considered to give rise to a taxable benefit reportable on P11D, that part of the entertaining is not then disallowed for CT purposes.
- 39 \* Where the costs are to be apportioned for P11D purposes, only the additional (ie marginal) costs are to be taken into account.

**Business Travel**

- 40 Business travel is defined as travel necessarily undertaken by an employee in the ordinary course of his or her duties. Where the employee operates from a fixed base of employment, business travel is any journey made to and from that base to a temporary place of work or from home to any temporary place of work. See also guidance in 55.
- 41 Travel between home and any permanent place of work will not be a business journey.
- 42 Where the employee works in a geographical area, travel between home and the area boundary will not be a business journey.
- 43 Whenever possible, employees with company cars should use those vehicles in preference to public transport. When employees are travelling to the same event or function, consideration should be given to travelling in the same car.

**Company car users**

- 44 Where appropriate, an employee may be provided with the use of a Company car. In such cases private use of the vehicle is permitted. Details of the terms under which Company cars are provided will be notified separately to those eligible. The provision of a Company car will be notified to HMRC and the employee will be taxed on the benefit arising.
- 45 Where a fuel card is provided, or the cost of any private mileage is met by the Company, a further taxable benefit arises based on HMRC's published scale rates for the user's vehicle.
- 46 At the end of the lease the user may purchase the vehicle for the market value agreed with the leasing company.
- 47 Company car users should claim for servicing and tolls in accordance with the Expense Reimbursement Procedure in 7 above. Under no circumstances will parking fines be reimbursed.

**Pooled cars**

- 48 A pool car may be provided in certain circumstances. Note that no car benefit will arise where all the following conditions are met: The vehicle:
- a. is not ordinarily used by one employee to the exclusion of the others
  - b. any private use of it made by the employee is merely incidental to the employee's other use of it in that year, and
  - c. it is not normally kept overnight on or in the vicinity of any residential premises where any of the employees is residing.

### **Chauffeurs**

- 49 A chauffeur will be made available only where considered necessary. No marginal cost benefit will arise on the use of an in-house chauffeur but the marginal cost of any private journeys (including any home to office) undertaken by an external chauffeur will be treated as a benefit in kind except where the journey is due to very early or late working on infrequent occasions.

### **Use of employee's own car**

- 50 Employees who wish to use their own private cars on company business should seek prior authority from their line manager. Employees must ensure that their insurance cover extends to business use. Where authority is granted by the company, expenses will be reimbursed in accordance with the following rates:
- a. First 10,000 miles – 45p
  - b. After 10,000 miles – 25p
- 51 Full details of the business journey, including the date, reason for journey, starting points and destinations should be shown on the claim form. Business miles to be claimed must be entered and the amounts claimed accordingly. However see 55 for restrictions on claiming travel expenses where the business journey starts or finishes at home.

### **Travel by rail or air**

- 52 Rail or air travel should normally be undertaken at the cheapest available class unless prior permission has been given for first class or business travel. The reason for the journey should be provided.

### **Disrupted public transport and taxi fares home**

- 53 The Company will meet the cost of a taxi fare to or from an employee's home due to disrupted public

transport or exceptionally where an employee is required to work late and public transport is not available or there may be a potential risk to the employee's safety in travelling home. In these circumstances only, the cost is not regarded as a taxable benefit.

### **Employees with more than one place of work**

- 54 The cost of travel from home to an employee's normal place of work is not allowable for tax purposes. The rules are also extended to any place where an employee spends at least 40% of his or her time at another location on a permanent basis. This does not apply to employees travelling to a temporary place of work (defined as a workplace where the employee is sent to perform a task for limited duration not expected to exceed 24 months) where such travel will be allowable. NB The tax exemption ceases from the time it is known that the secondment will last for a continuous period of more than 24 months.

### **Travel to a temporary place of work**

- 55 When an employee is sent to work at a temporary location, the employee may claim for the additional cost of travel to and from home to the temporary site over and above the cost of their normal commuting journey. No costs may be claimed where the journey undertaken is broadly the same as the normal commuting journey or where the new location is within the London area and covered by the same area zone ticket. However, in limited circumstances a claim may be made to HMRC by the individual.

### **Hotel accommodation**

- 56 Where the employee is required to stay away from home and his or her normal workplace, overnight, he or she may reclaim the cost of reasonable accommodation. The Company will bear the cost of the accommodation plus the reasonable cost of meals provided that the relevant vouchers are attached to the claim form. The cost of a reasonable alcoholic beverage taken with the meal may be included.
- 57 The cost of breakfast will also be reimbursed.
- 58 Any other expenditure, including expenditure on separate bar drinks, or in room service, videos etc must be met by the individual personally/ will be included in the annual PSA (see 6)
- 59 Where meals are not taken in the hotel, separate receipts should be obtained.

### **Overnight incidental expenses**

- 60 In accordance with HMRC regulations, the Company (in addition to the cost of accommodation and meals) will also bear the cost of personal incidental expenses of up to £5 per night (in the UK) and up

to £10 per night (overseas). This allowance is intended to cover items such as laundry, newspapers, telephone call home etc. Provided the allowance is not exceeded there will be no tax or NIC liability but if the allowance is exceeded the whole amount is taxable. Employees are asked to keep any overnight incidental costs below these limits whenever possible.

- 61 Taxable overnight incident expenses should be allocated to Staff Entertaining and included in the annual PSA (see 6).

### **Subsistence**

62 Employees who are required to travel in the course of their work are entitled to claim the additional cost of meals on their journey. Only the cost of meals taken in the course of business journeys will be borne by the company.

63 Breakfast may be claimed by employees who are away from home on business the night before, or if departing to a temporary location before 6.00 am.

64 Consideration will also be given to reimbursing the cost of a meal when working late such that return home is after 9.00 pm. Prior approval must be sought before this is claimed. The cost will be included in the annual PSA (see 6).

65 Full details of the qualifying journeys must be included on the Personal Expense Claim form.

### **Medical screening and routine examinations**

66 Where the Company requires employees to undergo routine medical health checks or screening, it will make the necessary arrangements with the medical practitioner and will pay the costs incurred. This also applies also to users of VDUs who require regular eye tests. No tax or NIC liability will arise on arrangements made in this way.

### **Mobile phones, laptops, tablets and similar equipment**

67 Where it is necessary for a mobile telephone, laptop PC or similar equipment to be provided to an employee for the proper performance of his or her duties the Company will make the necessary arrangements. Employees are requested to keep any private use to a minimum. See separate Company policy.

### **Contributions to home telephone costs**

68 Only the actual cost of identified business calls from a home telephone will be reimbursed. No other contribution will be made.

## Uniforms and protective workwear

69 Where the Company considers that a uniform is required to enable an employee to carry out his or her duties effectively, this will be provided free of charge and no taxable benefit will arise. The clothing will be clearly marked with an appropriate company logo. Protective workwear will also be supplied where needed.

## Subscriptions

70 The Company will bear the cost of annual personal subscriptions to professional bodies or clubs where it considers that membership of the organisation in question will enhance the employee's effectiveness in performing his or her duties. Where the body is included on the HMRC list of approved associations (list 3A on HMRC website) no taxable benefit will arise, otherwise the cost will be included on the individual's form P11D.

## Gifts and benefits supplied to employees of other organisations

71 Where the Company makes a gift or provides a benefit in kind to the employee of another organisation, that employee is regarded by HMRC as having received the gift or benefit by virtue of their employment and the gift is treated as a taxable benefit. To avoid the employee having to suffer tax on the gift, the Company is entering into a Taxed Award Scheme with HMRC to account for the tax and NIC arising.

## Childcare vouchers

72 Employees are entitled to purchase child-care vouchers under the current government scheme (now scheduled to run until April 2017). The number of children you have doesn't affect this.

73 Basic-rate taxpayers can pay for up to £243 of childcare with vouchers each month (£55/week). This is per parent, so two working parents could get £486 of vouchers each month. (This also applies to higher/top-rate payers who joined before 5 April 2011, as long as they don't take a break from the childcare voucher scheme of more than 12 months.)

74 On 6 April 2011, new joiners paying higher or top-rate tax had their allowance cut so all taxpayers have roughly the same maximum tax saving. The limits in terms of vouchers you can buy are:

- |                                |  |
|--------------------------------|--|
| a. Basic-rate (20%) taxpayer:  | £55/week voucher, max annual tax/NI saving £930  |
| b. Higher-rate (40%) taxpayer: | £28/week voucher, max annual tax/NI saving £630. |
| c. Top-rate (45%) taxpayer:    | £25/week voucher, max annual tax/NI saving £590. |

### Further Education costs

75 The Company will meet the cost of any further education or training where it is considered that this may enhance the employee's performance or personal skills. Provided that the course or training is related to the employee's work or career, no benefit in kind will arise.

### Legislation

76 The procedures described in this manual are based on the legislation as it applies to the year 2015/16 and are subject to change.

### Appendices

Appendix 1 – Sample of Company's designated personal expense claim form

Signed



For and on behalf of the  
Michael Lonsdale Group Board of Directors  
(Michael J Lonsdale Limited /Michael J  
Lonsdale (Electrical) Limited)

Name Michael Hoodless  
Position Executive Chairman  
Date 13<sup>th</sup> June 2019