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Expenses **You Can Claim!**

A complete pocket guide to common
Employee Expenses & Benefits

■ **2021**

Can I pay these employee expenses?

When you are paying employees, it is important to gain an understanding of employee expenses and employee benefits, or both employer and employee will pay too much tax.

Employee expenses are what HMRC considers to be reasonable for you to pay for or reimburse to your employee.

Employee benefits are anything else. Some have special rules, some are tax free so good to provide to employees, most others would be taxed like extra salary but with extra paperwork so not worthwhile.

In this guide for Employers and Employees, DNS Accountancy Group Managing Partner, Sumit Agarwal outlines some common employee expenses and benefits that can be provided, to reduce tax bills.

About Sumit



Sumit Agarwal ACA (India), ACMA is the Managing Partner of DNS Accountants, a multi-award-winning accounting practice specialising in small-business and contractors. He is very passionate about small-businesses and owner managed businesses; and has helped thousands of businesses across the UK to run tax efficiently. Sumit is the winner of the Young Entrepreneur

Award 2012 organised by the Indo British Business Forum at the House of Commons and featured in the Sunday Times amongst the 2016 Top 200 Professionals in the UK.

Published by DNS Accountants

The guide has been created by DNS Accountants, who specialise in accounting services for businesses and contractors. DNS has a unique support model for businesses that can help you succeed whether you are starting a new business or an existing business owner. Our in-house developed software eases out the process of claiming expenses and takes away the hassle of accounting.

For more information please

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Fundamentals of Expense Claims

There are only two rules

1

Business expenses and costs

'Is the expense wholly and exclusively for business?'

2

Director or employee reimbursement 'Is the expense wholly, exclusively and necessary for business?'

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Employee Expenses and Benefits

A Accommodation

The employer can pay or reimburse the expenses incurred by directors or employees when they are away from home on business and spend money on temporary accommodation such as hotels, bed & breakfast or rental property.

Accommodation is covered by the rules on business travel. Travel from home to a permanent workplace does not count as business travel, this means that the employer cannot usually pay the cost of accommodation near the permanent workplace. If they do, it will be considered a taxable benefit.

Only actual costs incurred are allowed for UK accommodation reimbursement, but HMRC benchmark rates for overseas subsistence include accommodation elements that may be claimed instead of the actual cost incurred abroad.

Generally, there is no fixed limit/allowance for accommodation, but claims for the same should be of reasonable amount to avoid a taxable benefit and there is no allowance for staying with friends.

Secondary accommodation may be claimed when staying away from the permanent address e.g. during the course of a business assignment, or while attending work related training.

Residential accommodation supplied to employees as part of their job has special rules, please discuss these with DNS accountants

See also '[Travel](#)', '[Overseas Travel](#)' and '[Overnight Allowances](#)'.



A Annual Function Allowance

A social function (e.g. Christmas Party) held for staff (directors & employees), is a tax-free benefit provided these conditions are met:

- It happens every year i.e. is annual
- It is an event i.e. booked not ad hoc
- All staff (at that site) are invited (can include subcontractors)
- Annual cost per head of all such functions does not exceed £150, including VAT.

Others may be invited e.g. a family member or friends, provided the cost does not exceed £150 per head it will be deductible as a company expense. It is advisable to keep it reasonable when inviting guests as HMRC could deny tax relief on the basis that it isn't a legitimate expense.

See also '**Entertaining**'

C Childcare Vouchers

The employer managed Childcare Voucher scheme has been closed to new entrants from October 2018 and has been replaced by the HMRC managed Tax Free Childcare Scheme.

However, all employees who were enrolled on their employer's scheme prior to October 2018, can continue to receive tax free childcare vouchers from their employer (or direct payments to the childcare provider), for as long as they still have qualifying children under the age of 16.

The tax-free limit for each employee depends on their rate of income tax.

Rate of Income Tax	Weekly Exempt Limit	Monthly Exempt Limit
Basic	£55	£243
Higher	£28	£124
Additional	£25	£100

See also '**Workplace Nurseries**'

C Company Car

A business may decide to provide an employee with a company car. This will generate a taxable benefit in kind, however financed; and if fuel is also provided then there is an additional benefit.

Note that a company car can be any road vehicle other than a goods vehicle, motor cycle or invalid carriage. Also, the benefit in kind arises if available for use regardless of actual use.

The basic benefit in kind is calculated based on

- List price when the vehicle left the factory
- Emissions
- Type of fuel

However, if the company car is provided in exchange for a salary sacrifice then the taxable benefit is the higher of the calculated benefit and the sacrificed salary.

To calculate the benefit for a specific vehicle, do visit

<http://ccfcalculator.hmrc.gov.uk/CCF0.aspx>

See also '[Mileage](#)', '[Vans](#)', '[Company Car Fuel](#)'

C Company Car Fuel

If a business decides to provide an employee with a company car, then they can choose to pay for all fuel too, and hence create a subsidiary benefit in kind for the fuel. Alternatively, they can just pay for fuel for business journeys

The fuel benefit is calculated in the same way as the car benefit, but a fixed charge is used instead of the list price (2021/22 – £24,600)

HMRC regularly publish advisory mileage rates for reimbursement of fuel for business journeys.

<https://www.gov.uk/government/publications/advisory-fuel-rates>

See also '[Mileage](#)', '[Company Car](#)'

C Computers and Computer Accessories

Costs incurred in the purchase or maintenance of computer equipment, hardware and software can be classed as a valid business expense, provided it has some business use. And the personal use proportion is not taxed as a benefit in kind on the employee.

The business may reimburse such costs in full, even if the bill is in a personal name. If a computer or accessory that is owned by the director or employee personally, is used for business, then a hire charge may be paid for its use; alternatively, the business may purchase it for market value at the point it was brought into business use - check online platforms for the cost of similar items.

See also '**Equipment**'

C Cycle Travel

An employee using a personal bicycle for business travel, may receive mileage expenses from the business at HMRC approved rate of 20 pence per mile. The travel should qualify as a business journey.

HMRC is encouraging employers to provide bikes for employees or assist them to purchase bicycles under the cycle to work scheme. Accordingly, the purchase of a bicycle (including related safety equipment etc) by an employer and its provision to an employee/director is tax free on the employee if the following conditions are met

- made available to all employees
- used mainly (over 50% of the time) for qualifying journeys

Qualifying journeys are those that are all or part of a journey to, from or between workplaces. Note these are more than just business journeys as defined under the travel rules.

Some employers may charge a fee or hire charge for this benefit, but this is deductible from salary before taxes as salary sacrifice, to make sure it is a tax-free benefit.

The condition for qualifying journeys has been temporarily disapplied till April 2022, for cycles or cycle equipment provided to employees on or before 20 December 2020.

See also '**Travel**'

E Electricity

See '**Use of home**'

E Entertaining

Business entertaining, to discuss a business project or form or maintain a business connection, is a legitimate business expense that the company can pay for or reimburse to the employee, without creating a taxable benefit. However, it is not a tax allowable expense in the company.

Gifts to third parties may also be classed as entertainment.

See also '**Gifts**', '**Annual Function Allowance**'

E Equipment

To the extent that equipment is provided to employees for personal use then that use is reportable and taxable on the employee, unless it qualifies for the exemptions under computer equipment or bicycles.

The benefit in kind is usually assessed annually as 20% of the value of the asset when first made available plus all running costs incurred in the year – including VAT. This benefit may then be apportioned for personal and business use, if possible, to get a taxable benefit value.

There are also special rules for property and vehicles

See also '**Computers and computer accessories**', '**Cycle Travel**', '**Vans**', '**Accommodation**'

E Eye Tests

If employees regularly use a computer for the performance of their work, then the cost of an eye test can be a tax-free expense.

The cost of glasses cannot be claimed unless specified via a prescription that it is only for screen work or business use.

See also '**Medical Costs**'

F Flights

The company can pay or reimburse the flight expenses of employees traveling on business, for as long as or for the proportion that it constitutes a business journey.

Any costs incurred for others e.g. family members will be taxable on that employee as a benefit in kind.

See also 'Travel'

F Fines and Penalties

Fines or penalties, even if genuine business expenses, are not tax allowable for the business. The simple reasoning behind this is that fines are put in place if rules are broken and, breaking them is not a part of doing business.

F Food when Travelling

An employee travelling on business can be paid subsistence costs e.g. a meal or coffee stop, tax free.

For travel in the UK the tax man has set benchmark subsistence rates that may be used to make the day's subsistence claim, instead of keeping the receipts and claiming actual costs.

Minimum Trip Time	Benchmark Allowance
5 hours	£5
10 hours	£10
15 hours	£15

A further allowance maybe claimed of £10 where the qualifying trip lasts beyond 8pm.

Qualifying conditions for benchmark daily subsistence claims

- The travel must be in the performance of duties or to a temporary workplace, on a journey that is not substantially ordinary commuting
- The employee should be absent from the normal workplace for a continuous period in excess of 5, 10 or 15 hours
- The employee should have incurred a cost on a meal (food and drink) after starting the journey

For travel overseas HMRC has set benchmark rates for Accommodation, Subsistence and some incidentals. These rates are split out into various elements and may be used in full, per hours in the country, or piecemeal with receipts. For a full list, city by city, see:

<https://www.gov.uk/government/publications/scale-rate-expenses-payments-employee-travelling-outside-the-uk>

See also 'Travel', 'Overseas Travel'

G Gifts

If a company gives a gift to an employee then it would be classed as a benefit in kind, and hence be taxable on that employee, unless it can fall under the trivial benefits exemption.

See also 'Entertaining' and 'Trivial Benefits'

H Health Insurance

Employer provided private medical insurance for employees or their families is subject to Income Tax and National Insurance under HMRC's taxable benefits rules.

But certain expenses related to prevention are exempt.

Permanent Health or critical Illness Insurance is a taxable benefit if payable to the employee or their estate in the event of a claim.

However Key man insurance payable to the employer is not a taxable benefit.

See also 'Life Insurance', 'Medical Costs', 'Eye Tests', 'Sick Pay'

H Hotels

See '**Accommodation**'.

I Internet

See '**Utilities**' or '**Telephone**'

L Laptop

See '**Computer and Computer Accessories**'.

L Late Night Taxis

If an employee has been provided with a taxi paid for by the company, for a journey from work to home, then that represents a taxable benefit unless late night taxi exemption rules apply or it can qualify as a trivial benefit.

Late night taxi conditions:

- the employee was required to work later than usual, after 9pm (Employees who normally work until 9pm cannot claim this expense)
- such late-night working occurs irregularly,
- by the time the employee stops work, it is not practical/reasonable to use public transport
- the transport provided is by taxi or equivalent
- the number of such journeys are not more than 60 a year.

See also '**Travel**', '**Trivial Benefits**'

L Life Insurance

Employer provided life insurance is generally a taxable benefit if payable to the employee or their estate in the event of a claim. Key man insurance payable to the employer is not a taxable benefit, and neither is Relevant Life Insurance that is written in trust i.e. payable to neither employee, their estate nor employer.

See also '**Health Insurance**'

M Meals at Work

An employer can provide free or subsidised meals at a workplace canteen or vouchers for such meals at a similar shared facility e.g. business centre cafeteria. There is no taxable benefit for the employees, provided all employees at that site are offered the same benefit.

See also '**Food when travelling**'

M Medical Costs

The company can cover the costs of annual or periodic medical checks or health screening.

Assistance with medical or dental treatment, or insurance provided to employees is however a benefit in kind.

There are a few special case exemptions

- help in returning to work,
- overseas workers
- work related injuries & diseases

The costs reimbursed to employees for a relevant coronavirus antigen test for the tax year 2021-22 and 2020-21, will be exempt from income tax and national insurance contributions.

Do contact DNS for more guidance

See also '**Eye Test**', '**Sick Pay**', '**Health Insurance**'

M Mileage

If an employee uses their own vehicle for business travel, then HMRC has set mandatory mileage rates for tax relief. A company may choose to reimburse at different rates, but any excess is reportable and taxable as a benefit in kind, and any underpayment may be claimed on a personal tax returns to obtain the tax relief.

These mandatory rates are as follows

Type of Vehicle	First 10,000 miles	Above 10,000 miles
Cars and Vans	45p	25p
Motorcycles	24p	24p
Bicycles	20p	20p

If travelling with a business passenger, then the driver is entitled to an extra 5p per mile

A business mileage log is compulsory; it should record date of trip, destination and reason for journey, as well as mileage.

If an employee drives a company vehicle on business, but no fuel is provided, then HMRC issues Advisory fuel rates that may be used to reimburse fuel costs for business mileage without creating a benefit in kind. These rates are changed regularly by HMRC, but can be found at

<https://www.gov.uk/government/publications/advisory-fuel-rates>

See also '**Company Car**', '**Vans**', '**Travel**'

M Mobile

The company can provide an employee with one mobile phone, that may be used for private use, without HMRC considering it a taxable benefit. The contract for the phone must be in the company's name.

A mobile phone is a device that is designed or adapted for the primary purpose of transmitting and receiving spoken messages. It includes SIM only supply and SMART phones but excludes satnav, PDA, Laptops and devices using VOIP.

See also '**Telephones**', '**Computers & Computer accessories**'

O Overnight Allowance

There are often personal (non-business) incidental expenses incurred by an employee while travelling overnight on business that would usually be classed as taxable benefits if paid or reimbursed by the company e.g. – Newspapers, laundry or calling home. However, there is an exemption for payments of less than £5 per night for travel within the UK and less than £10 night for travel outside the UK. If this allowance is exceeded, then the full cost is taxable. Hence, it can be more efficient for employers to pay the full allowance rather than actual costs.

See also '**Accommodation**'

O Overseas Travel

An employee travelling overseas on business can be reimbursed costs incurred, to the extent that the trip is classed as business.

The tax man has provided benchmark rates that may be used for reimbursement instead of keeping the receipts to claim the actual cost of travel, subsistence, accommodation etc. These rates are split out into various elements and may be used in full, per hours in the country, or piecemeal with receipts. For a full list, city by city, see:

<https://www.gov.uk/government/publications/scale-rate-expenses-payments-employee-travelling-outside-the-uk>

See also '**Travel**'

P Parking Spaces

The provision of a car or motorcycle parking space, or facilities for parking bicycles at or near the employee's place of work, are outside the scope of taxable benefits.

See also '**Travel**'

P Pension Contributions

It is compulsory for certain employees to be enrolled into a company auto-enrolment pension scheme and for the company to make minimum contributions unless the employee opts out.

However, the payment of any pension contributions direct by the employer, whether as part of auto-enrolment obligations, under salary sacrifice or as a bonus, is very tax efficient as neither employer nor employee pay tax or national insurance on these contributions, which are also tax allowable on the business as part of staff costs.

Remember there are caps to investment in pensions so employees should be encouraged to talk to an independent financial advisor before making pension decisions.

P Petrol

The company may only pay for or reimburse fuel for company owned vehicles or equipment.

See also '**Mileage**', '**Company Car Fuel**', '**Van Fuel**'

P Pre-Trading Expenses

There are certain expenses which may be incurred prior to the setting up of a company like meeting clients, phone bills or equipment costs. If these expenses are incurred in anticipation and made within 7 years of commencement of business, they may be reimbursed at cost.

See also '**Computers and computer accessories**', '**Telephone**'

P Protective Clothing

Cost of everyday wear is not a business expense; however, uniform or protective clothing can be. This can include cost or hire and laundering.

Protective clothing is defined as that worn as a matter of physical necessity because of the nature of the job, such as a high-visibility jacket for a road worker,

If the company provides other types of clothing, this may be a taxable benefit.

See also '**Uniform**', '**Trivial Benefits**'

R Relocation Expenses

If a business is relocating, or even just a specific employee, then the company may choose to pay relocation costs. The first £8,000 of such qualifying costs can be tax exempt on that employee.

'qualifying' such costs can include the costs of buying or selling a home, moving costs and buying certain things for a new home. However, they are only qualifying costs for an employee who is moving area to be nearer to a new job or an existing employee who is changing their place of work; also, the employee's new home must be reasonably close to the workplace compared to their old home.

For more information, kindly get in touch with the DNS team or visit [here](#).

S Sick Pay

An employer is obligated to pay most employees sick pay when off sick for more than 3 days, up to 6 months. This counts as part of ordinary taxable salary, but the employer might like to take out insurance to cover this unpredictable cost.

The coronavirus statutory sick pay rebate scheme can pay 2 weeks of SSP to employers for sick pay paid to eligible employees due to coronavirus.

See '**Health Insurance**'

S Sports Facilities

The company can directly provide sports facilities to its employees and their families or vouchers for such facilities at a similar shared facility e.g. business centre gym. However, there are certain conditions to be met for it to qualify as a non-taxable benefit on the employee

- If must be available to all staff at that site
- It must not be available to the general public
- Must be use mainly by employees, ex employees their families and household members
- Can not be in a private home or somewhere providing overnight accommodation
- Does not involve use of mechanically propelled vehicles

See also '**Subscriptions**'

S Subscriptions

HMRC have a list of the only allowable personal professional membership subscriptions.

HMRC's lists which can be found on www.hmrc.gov.uk/list3/index.htm

If the company pays for a personal subscription to a body that's not on HMRC's list, then that will count as a taxable benefit.

T Telephone

Personal use of lines to the business premises is considered trivial and hence not a taxable benefit.

Lines to private premises are considered a benefit in kind if paid for by the company, and subject to national insurance on the total cost and income tax on the private proportion.

Alternatively, the company can reimburse the costs of business calls/use of private phones or lines without creating a taxable benefit.

See also '**Mobile**' and '**Utilities**'

T Training

Work related training provided by an employer to its employees is not a taxable benefit for the employee. Any other training may have to be reported to HMRC as a taxable benefit.

Specifically training costs paid for by the individual employee are not reimbursable unless necessary to the employee keeping his job.

Related costs such as travel to the course, course materials and exam fees are also allowable, as are integrated costs such as meals and event activities at a conference, but not costs of recreation, entertainment, rewards or inducements.

See also 'Travel'

T Travel

The company can pay for or reimburse travel expenses for employees if the journey counts as a "business journey." To be considered a "business journey", it must either:

- be to or between business appointments, or
- travelling to or from a temporary workplace,

A temporary workplace is one that passes the 24 months rule; which is, in brief, working or expected to be working at that location for less than 40% of the time in any 24 month period.

Travelling from home to a permanent workplace does not count as business travel, and the company cannot pay back the cost of these journeys.

Additionally, London congestion charges and car parking charges also form part of allowable travel expenses'

See also 'Accommodation', 'Meals when traveling', 'Overnight Allowance', 'Overseas Travel'



T Trivial Benefits

All benefits are subject to tax and NIC, unless covered by a specific exemption or rule. However, to avoid having to report and tax minor benefits there is also a Trivial Benefits allowance, for any non-cash benefit without it's own specific allowance.

However, there are still conditions to be met for it to be exempt under this allowance

- Each benefit must have cost the company less than £50
- The benefit must not be able to be exchanged for cash
- There is a limit of £300 pa for a director, and each member of his household
- The benefit must not be a reward, e.g. for work done etc
- There must have been no expectation of receiving the benefit

Joint benefits may be split between staff

Staff can include ex-employees

Examples:-

- Flu jab
- Turkey at Christmas
- Staff celebration lunch on winning a new contract
- Flowers for a birth

See also '**Gifts**', '**Uniform**'



U Uniform

Cost of everyday wear is not a business expense; however, uniform or protective clothing can be. This can include cost or hire and laundering.

Uniform is defined as a set of clothing of a specialised nature that is recognisable as a uniform and is intended to identify its wearer as having a particular occupation.

Clothing such as a jacket with the business logo on it, the company can provide to employees outright or make available to them.

If the company provides other types of clothing, this may be a taxable benefit.

See also '**Protective Clothing**', '**Trivial benefits**'

U Use of Home as Office

If an employee is contracted to work from home, then he can be reimbursed a percentage of the additional costs of using his home for business e.g. electricity bill, broadband charges, telephone bill, metered costs of gas and water. The expenses of a fixed nature such as rent, or mortgage cannot be reimbursed as they would have been paid whether or not the employee worked at home.

However, there is a £6 per week allowance that may be paid rather than doing the detailed calculations.

Alternatively, if running the business from home then there are rules pertaining to how much may be paid as rent; these are more complex, and you should get in touch with DNS for advice.

See also '**Utilities**', '**Telephone**'

V Vans

The company may provide vans or other commercial vehicles to its employees.

If a company van is used privately, then there is a fixed benefit in kind rate for the van (2021/22 - £3,500) and another for the fuel. Home to work journeys do not count as private in this context.

The van benefit charge for zero emissions vans has been reduced to £nil from 6 April 2021.

There is no benefit in kind for private use of other goods vehicles or lorries etc.

See also '**Mileage**', '**Equipment**'

V Van Fuel

If a business decides to provide an employee with a company van, available for private use then they can choose to pay for all fuel too, and hence create a subsidiary benefit in kind for the fuel (2021/22 - £669). Alternatively, they can just pay for fuel for business journeys

HMRC regularly publish advisory mileage rates for reimbursement of fuel for business journeys.

<https://www.gov.uk/government/publications/advisory-fuel-rates>

See also '**Mileage**', '**Vans**'

W Workplace Nurseries

The company can provide places in a workplace nursery to its employee's children. However, there are certain conditions to be met for it to be a non-taxable benefit

- It must be available to all staff
- It must have appropriate registrations etc.
- It must be managed and financed by the company
- It cannot be in a private home

See also '**Childcare Vouchers**'



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