

Claiming VAT on employee expenses



Businesses often ask us about claiming VAT back on the expenses which employees accrue in their work for the organisation. It's not surprising there's often confusion, as the VAT implications can differ according to the type of expense and how it's used.

In this simple overview we've focused on the most common expenses that it may be possible for the business to claim VAT back - subject to the business' normal partial exemption position. This guide only covers expenditure for business purposes.

See our separate guide for motoring expenses

In general

If you already pay an employee a flat rate for subsistence expenses, you cannot claim any VAT incurred on those expenses.

If instead, your business pays the actual cost of the supplies then you can claim the VAT. And where the business pays a proportion of the actual costs, then you can claim the VAT portion of the amount the business paid.

Meals

- ✓ If your business provides canteen facilities for staff, all the VAT incurred in providing these facilities for employees can be claimed.
- ✓ Similarly if your business pays for meals for its employees, any VAT incurred in those costs can be claimed.

If, however, you're a sole proprietor, partner or director...

- ✓ You can claim the VAT on meals you take when you're away from your normal place of work on a business trip.
- ✗ You cannot recover the VAT on meals which are not taken for business purposes.

Hotel accommodation

When you or your employees are away from your normal place of work on a business trip, you can claim back the VAT incurred on hotel and similar accommodation.



Staff entertainment

You may recover VAT incurred on staff entertainment if the expenditure relates to the purpose of your business.

Acceptable examples here include events/activities to reward employees for good work or to maintain and improve staff morale—such as staff parties, team building exercises, staff outings etc.

There two exceptions relating to:

- Entertainment provided to directors, partners or sole proprietors of the business.
- Where employees act as hosts to non-employees or events for both employees and non-employees.

Director, partners or sole proprietors
If the entertainment is provided solely for directors or partners of a business the VAT incurred cannot be reclaimed. This is because the goods or services are not deemed to be for a business purpose.

Where directors and partners of the business attend staff parties together with other employees, HMRC will permit the VAT to be reclaimed.

Entertainment activities for both employees and non-employees
If you also provide accommodation, meals or entertainment for non-employees, it is likely to be treated as business entertainment and you won't be able to claim the VAT back. See the [definitions of business entertainment](#) on the Gov.uk site.

Entertainment activities for both employees and non-employees cont.
For events used to entertain employees and non-employees together, you can only recover the VAT you incur on entertaining your employees.

A common example here are events where the invitation extends to employees' spouses, partners and children etc.



Domestic accommodation

- ✓ If your business provides domestic accommodation for employees, you can claim back any VAT incurred.

If you're a sole proprietor, partner or director...

- ✗ You cannot recover the VAT on expenses such as repairs or maintenance connected with your domestic accommodation — even if the business owns the accommodation and bears the cost.

However...

- ✓ If the accommodation is used partly for business purposes (for example, if you use a room for meetings or as your office), then you can reclaim part of the VAT charged. See [this Gov.uk guidance](#) on how to work out how much VAT you can reclaim.

Don't forget! You'll need to have invoices as evidence of the VAT charge. They can be in the name of the employee for road fuel, meals and hotel accommodation. For other expenses, the invoice needs to be addressed to the business.



Claiming VAT on employee expenses



Mobile phones

Phones purchased and connected for employees

Where your business provides its employees with mobile phones for business use then, regardless of whether you allow private use, the business can claim all the VAT incurred in...

- purchasing the phone, and
- the standing charges for keeping it connected to the network

...providing the charges do not contain any element for calls.

Mobile phone call charges

When it comes to claiming VAT back on mobile phone call charges, it depends on the type of call made.

Business-only calls

If a business doesn't allow its employees to make private calls, all of the VAT incurred on the call charges can be claimed back.

To demonstrate to HMRC this is the case, there needs to be evidence that the business has imposed clear rules prohibiting private use and enforces them.

HMRC does, however, recognise that in practice such business policies often tolerate a small amount of private calls. It will therefore treat such minimal use as insignificant for VAT purposes and will not prevent a business reclaiming the VAT.

Charges for private calls

If a business charges its employees for any private calls they make, then it may claim back the VAT incurred on the calls. In doing so though, it must account for output VAT on the amounts it charges.

Mobile phone call charges

Free private calls

If your business allows its employees to make private calls without charging them, then you must apportion the VAT incurred on the call charges.

It is not permitted for businesses to adopt an alternative treatment of accounting for output tax on the private use.

Apportioning calls

As a business you can choose any apportionment method that suits your operations providing it produces a fair and reasonable result.

An example from HMRC, which it deems acceptable, is that a business could analyse a sample of bills taken over a reasonable period of time and use the same ratio for future VAT recovery on mobile phone bills.

Fixed monthly charges

Where a phone package allows your business to make a certain quantity of calls for a fixed monthly payment and there's no separate standing charge, then your business must apportion the VAT on the total charge for the package.

Similarly, where the contract is for the purchase of the phone and the advance purchase of a set amount of call time for a single charge, the VAT apportionment will also apply to the whole charge.

Reclaiming the VAT – dos and don'ts

- In almost every case it will be necessary to get an invoice which confirms that VAT was charged. Pro-forma invoices, delivery notes, requests for payment or order forms are not acceptable evidence.
- The invoice can be in the name of the employee but only in relation to subsistence expenses such as meals and accommodation, or bills for staff entertainment.
- Invoices must be addressed to the business for all other types of expenditure.
- VAT can also be claimed on business calls made on the employee's phone (either mobile or landline). An invoice is not required to support the VAT claim provided that the call cost is £25 (inc VAT) or less.

Summary

It's easy to get confused when it comes to reclaiming the VAT back on employee expenses for a business. The nuances of different types of expenses and who is involved (employee vs director) have different implications.

This guide has aimed to give you a simple overview, however, for advice and information specific to your organisation's circumstances contact Nancy Cruickshanks and Shipleys' VAT team.

Motoring expenses

Claiming back the VAT on motoring expenses is complex as it depends on variables such as how it's used. We therefore have a separate guide covering the different options and implications. Find it at [insert link when completed]

