

Dispensation and why contractors cannot claim expenses without receipts

Introduction

In the "employee management services" market there is one topic that gets plenty of coverage, Expenses!

This article explains the HMRC rules for claiming expenses, what an HMRC Dispensation agreement means, and why you cannot claim expenses without receipts.

Market offers

There are different types of employee management Service Company:

- o Umbrella
- o Limited company management.

Each offers a variety of claimable expenses.

There is no "level playing field" in relation to the type of expenses that may be claimed. As such they are often misused as a selling feature between companies.

Genuine expenses - HMRC rules

Genuine business expenses are completely legitimate but are strictly controlled by HMRC. They publish a whole series of guides that relate to the rules for claiming expenses.

These guides are very relevant and have much of the information that is often quoted (or misquoted):

- o [480 – Expenses and Benefits – A tax guide](#)
- o [490 – Employee Travel – A tax and NICs guide for employers](#)

For each professional contractor, irrespective of their payment structure, these two documents will prove very useful in remaining within the guidelines.

HMRC Dispensation

As an "employer" (owner managed limited company) or even as an umbrella employee it is very important to understand another misused concept, the expense "dispensation".

Expense dispensations are often marketed by as a way to take home as much as money as possible. This is a complete contradiction in the way that HMRC grant dispensations.

The revenue describe a dispensation as,

"A *dispensation* is a notice, issued by an Inspector, which relieves you from reporting details of [expenses](#) and [benefits](#) on forms P11D or P9D."

Note how this does **not** state "you can claim for lots of different types of expenses without receipts!" This is often touted however as the way in which a dispensation works. e.g. "claim £25 a day without receipts for subsistence".

The reality is that a receipt should be retained by the employee but that it need not be forwarded to the employer on the monthly claim. The Revenue set the dispensations up to reduce paperwork for employers at both year end and also for employees during the course of a working year.

The misnomer that receipts are not required **AT ALL** is simply incorrect, receipts are not required by the employer for certain specific expense claims but the Revenue could and do check with individuals that the expenses are legitimate.

Any company offering a dispensation as a "feature" should have an auditable expense process and an employee should not be surprised to be asked to prove receipts.

In summary, dispensations are perfectly legal and are intended to help employer and employee alike. They provide an easier way to record business expenses but do not remove the need to be able to prove real expenses through retention of receipts. The [Revenue](#)

“ Expense dispensations are often marketed by as a way to take home as much as money as possible. This is a complete contradiction in the way that HMRC grant dispensations. ”

Rob Crossland - Parasol IT

[page on dispensation](#) has more specific information.

So be aware of men in shiny suits offering free lunches and no receipts, ask for a receipt and keep it safe!

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