



Expense reimbursements and the need for dispensations

Following a successful application, HMRC is able to grant a dispensation which means that certain types of expenditure will not need to be recorded in the end of year employer P11D or P9D forms. In addition, there is no requirement to pay either tax or National Insurance on items covered by the dispensation. Once granted, dispensations last indefinitely but are kept under review by HMRC.

Dispensations do not cover all types of expenditure but are limited to those items for which your employee is able to get a full tax deduction. In short, this is expenditure that is incurred wholly, exclusively and necessarily in pursuit of the work of the church. So, business travel costs can be included, as opposed to paying for the pastor's annual holiday which can't.

Dispensations tend to cover the more usual business type expenditure items such as travel; fuel; car hire; telephones; business entertainment and fees. However, this is only a partial list. A full list can be found on the HMRC website at the following link <http://www.hmrc.gov.uk/payerti/exb/a-z/a/index.htm>.

It is important to note that the church should be the body incurring the expenditure. Where the employee enters into a personal contract with a supplier and is then reimbursed by the church (e.g. a personal mobile phone contract), HMRC are likely to regard the reimbursement as meeting a personal liability that legally belongs to the employee and therefore a dispensation is unlikely to be forthcoming. Day-to-day expenses incurred by the individual (e.g. paying for train travel) will not be so regarded and could still be covered by any dispensation.

However, dispensations will never be given to cover expenditure that is not wholly, exclusively and necessarily in pursuit of the work of the church. Examples, include payments made (or benefits provided) to individuals because they are employed:

- To pay for one of their children to attend a youth camp;
- To help in the purchase, repair, insurance or other running costs of a private car;
- To pay for a celebratory birthday meal for the employee and their family;
- Allow an employee use of a church vehicle for private activities.

In such cases, payments and other benefits in kind will need to be recorded on the employee P11D or P9D; and the employee will be liable to pay tax on it.

In order to be able to operate a dispensation scheme, you need to have in place a system for checking and authorising expense claims. In most organisations a standard expense claim showing the date, the nature of the expense and the amount, authorised by a suitable person will suffice. In churches this authorisation may be by a church officer, or a nominated elder or deacon. As with all matters financial, showing a 'clean face' to the public is important and having proper systems in place will help the church avoid the whiff of scandal.

Any expense authorisation system goes beyond simply making sure that a claim does not include disallowable items, but should also consider whether the church should have incurred the expense, the extent of the claim and whether it might be classed as excessive.

Dispensations can be applied for using an on-line form with the more usual expense items specifically covered, but with room to allow you to request the less usual ones in the event that they apply to you. Unlike some of the other on-line forms, this application cannot be saved once the process has begun so it must be completed at a single sitting. You can also apply for a dispensation by downloading the form P11DX, completing it by

hand, and sending to HMRC, or indeed in the form of a letter as long as it contains all the necessary information.

Whilst we are not aware of any instances in which HMRC has challenged churches regarding expense reimbursements and dispensations, this is one of the more straightforward tax issues for churches to deal with. As such we would recommend that any church with employees should complete the necessary application to get a suitable dispensation in place and thereby remove any reporting requirement.

PSAs

A PSA is a flexible scheme that employers can apply for and is successful use to settle any PAYE tax and NICs due to HMRC without the need to enter the amount on the employees P11D or P9D. It is designed to cover minor items; irregular items; and items where it is impractical to operate PAYE or to value for P11D and P9D purposes. Go to <http://www.hmrc.gov.uk/payerti/exb/schemes/psa.htm> for more information on the operation of PSAs.

Items not covered by either a dispensation or a PSA

One area that is often overlooked by churches is the employers NIC liability which exists on items that are not covered by a dispensation. It is all too easy to make a proper declaration on the P11D but not account for the associated Class 1 NICs.

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