



Waveney Tax Solutions

# Payroll

## Dispersations

Most expenses payments made to employees have to be reported to HM Revenue and Customs (HMRC) on year end forms P11D, however it is possible to apply for a dispensation in respect of certain payments. No National Insurance or tax charges are applied to any amounts covered by a dispensation and once granted, a dispensation lasts indefinitely although HMRC will review them regularly (about every five years).

### What expenses can be covered by a dispensation?

You can apply to HMRC for a dispensation to cover expenses or benefits for which an employee would otherwise get a full tax deduction. The most common expenses covered by a dispensation are:

- Travel and subsistence costs
- Business entertainment
- Hire car costs
- Fuel for company cars
- Business use of telephones
- Credit cards used for business
- Professional fees and subscriptions

It is not necessary to apply for a dispensation for any expenses or benefits which are already exempt from tax.

### Do all businesses qualify for a dispensation?

In order to qualify for a dispensation, you must have an independent system in place for checking and authorising expenses claims. This means that someone other than the employee claiming the expenses must check that the amount being claimed is not excessive and that the expenses claim does not include any disallowable items.

This can pose a problem for a sole director company, however that does not exclude them from being eligible. Providing that you ensure all expenses claims are supported by receipts for each item being claimed and can demonstrate that the claim relates to expenditure covered by a dispensation, you should still qualify.

### How do I apply for a dispensation?

You need to apply for a dispensation using form P11DX and this can either be completed and filed online, or in paper format. A dispensation is usually effective from the date on which it is issued by HM Revenue & Customs, however they can be backdated to the beginning of the tax year. If you have been making the payments prior to applying for a dispensation, you should request that it is back dated when making the application.

The online application and pdf form can both be accessed here:  
<https://www.gov.uk/government/publications/payee-expenses-and-benefits-dispensation-p11dx>.



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It is important to check exactly which expenses can be included before you start to complete the application form, as a dispensation is given for the specific expenses you request, ie it is not a general dispensation for any expenses that may qualify.

You will need to provide details on the application form of:

- Travel and subsistence payments
- Fuel for company cars (you can only include this if the amounts paid do not exceed the statutory rates)
- Hire car costs
- Telephones
- Business entertainment expenses
- Credit cards used for business
- Fees and subscriptions
- Any other business related expenses you would like to be covered by a dispensation

Once submitted, HM Revenue & Customs aim to respond to dispensation requests within 15 days.

### Recording expenses

It is important to keep detailed records of all expenses payments, together with any supporting documentation. You should record the date and details of payment, for example if it relates to travel, why the journey costs were incurred, eg visiting a customer or supplier. You should also retain receipts to support all of the expenses payments and you will need to keep these records for three complete tax years after the end of the tax year to which they relate.

### Change in circumstances

If the circumstances or arrangements set out in the original dispensation application change, you should advise HMRC accordingly. Failure to do so could lead to the dispensation being revoked and collection of the tax that should otherwise have been deducted from the payments.

### Need help?

If you would like any assistance with applying for a dispensation, or guidance on providing tax free benefits for employees, please call us on 01502 370620 or 07919 924273, or alternatively you can email us at [nina@waveneytaxsolutions.co.uk](mailto:nina@waveneytaxsolutions.co.uk).