



EXPENSE REPORT GUIDE

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EXPENSE REPORT GUIDE

EXPENSE MANAGEMENT & IA:
THE PERFORMING DUO

How to optimise business expense report management?

This guide will help you gain efficiency by automating your workflows and procedures.

Expense report is at the heart of your corporate spending strategy. This guide is designed for both leading companies and smaller, growing businesses.

The traditional management methods are now outdated. They are no longer adapted to the rapid pace of change in business. Yet, without a clear expense management process, you are exposing your business to costly mistakes.

This guide reviews all issues relating to expense reports:



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What is a Business Expense Report?

Definition of an expense report

An expense report is designed to substantiate business expenses incurred by employees for any work-related activities.

This document, sometimes referred to as an expense claim, allows the employee to be reimbursed and the company to prove the expense.

The business expenses that can be reimbursed by the company can be strictly regulated. There are usually two types of expense reimbursement: a per diem allowance, and reimbursement of actual expenses.



Per Diem Vs. Actual Expense

The employer often has several options for reimbursing business expenses incurred by employees. There are two systems commonly used:

- Per diem allowance
- Actual expense reimbursement

Both of these expense reimbursement processes can be deducted from the company's taxable income.

Per Diem Allowance

With the per diem allowance, business expenses are determined before expenses are actually incurred. This allowance usually applies to recurring expenses, such as business travels. The employee will receive a per diem allowance covering the duration of travel.

For recurring expenses that cannot be anticipated on a per-day basis, the employee receives a flat-rate allowance every month in addition to the regular salary, to cover such expenses. Client invitations for business lunches or client gifts usually fall under this category of expenses.

If the employee does not use the full amount of the allowance, the remaining sum will not be reimbursed to the company. Likewise, if the employee expenses are greater than the amount of the allowance, the company does not reimburse the excess costs to its employee.

Usually, in countries where per diem allowance is applied, no proof of expense is required. This system is particularly suitable for employees who travel regularly. As the expenses do not have to be substantiated, the employee is exempted from the administrative burden of the expense report.

Some tax systems provide for non-taxation of per diem allowances up to specified maximum rates. In France, per diem allowances are exempt from social security contributions up to maximum rates set by decree. Beyond the maximum rates, the employer has to prove that the expenses are linked to actual work-related expenses. In Germany, the Ministry of Finance redefines every year the amount for the allowance provided for in the German Income Tax Act (Einkommensteuergesetz - EStG) and covering meal and accommodation expenses for all companies. In the UK, where per diem allowance is referred to as scale rate payments, per diem allowances are set according to benchmark scale rates.

Actual Expense Reimbursement

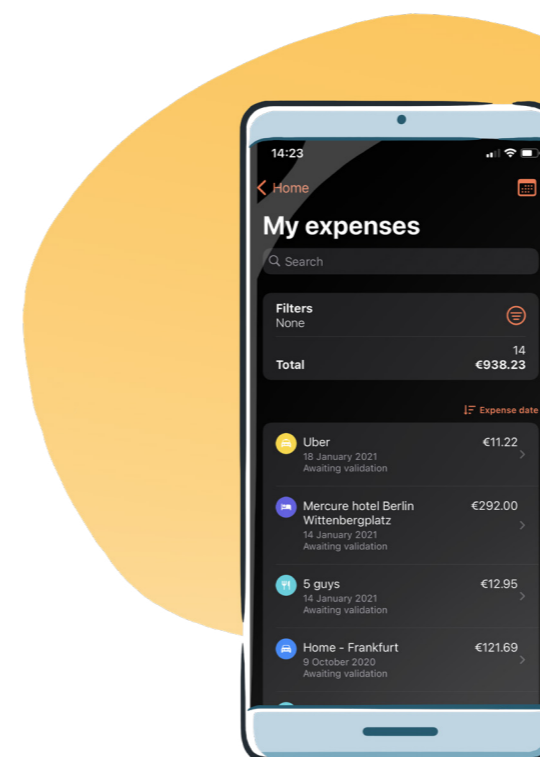
For actual expense reimbursement, the employee gets reimbursed for the amounts actually spent for the company. In this case, reimbursement is made upon production of proof of expense by the employee.

For travels where substantial business expenses will be incurred, the employee can request an advance payment. The company can provide the funds in advance, and the expenses are settled when the employee returns. If the advanced sum is greater than the actual expenses incurred, the employee must reimburse the overpaid amount. If the advanced funds were not sufficient, the company reimburses the rest of the incurred expenses. In any case, the employee must produce the corresponding receipts for the expenses with the expense report.

Expenses Covered by Expense Reports

Actual expense reimbursement is usually strictly regulated according to local regulations, as in France. The expense must have been incurred for the company's business purposes.

Provided that the expense incurred meets this condition, several types of operating expenses can be identified.





Meal expenses

Also known as catering expenses, meal expenses refer to all meals taken for work-related activities. This covers lunches taken during a working day, usually if the employee cannot return home. Meal expenses can also cover dinners and breakfasts during business trips away from home.

Meal expenses can include business meals with a client or team meetings. Team meetings meal expenses must be incurred as part of the company's activity to be considered as business expenses.

In some cases, meal expenses for lunches are reimbursed on a per diem basis, such as in France. In Germany, the authorities have set a daily allowance for meals for travelling employees. The rates cover travel days shorter than 24 hours – typically the days of arrival and departure – and full-travel days (24 hours). The rates are different for business trips abroad and are updated regularly. For countries with per diem reimbursement, there is usually no need for an expense report.

In other countries, meal expenses are not regulated by the authorities and companies can decide to reimburse lunches on an actual expense basis. In that case, an expense report is needed for any expense reimbursement claim.

Systems applied by local regulations throughout the world are all unique and there are no common regulations for travel costs coverage. In Europe, travel expenses, sometimes including accommodation and meals related to the business travel, are usually covered by per diems. Some countries set a rate for daily allowances for domestic and international travels. The rules for reimbursement of travel expenses are usually specified in the employee's contract or in the company's reimbursement policy. Recurring expenses such as daily commute will usually be covered by a per diem allowance, while non-recurring expenses (occasional business travel) are covered by an actual expense reimbursement.

In Belgium, transportation, travel and accommodation can be reimbursed according to a set maximum rate per kilometer or per day, on a per diem basis, but the company must be able to provide proof of actual expense.

In Germany, travel expenses cover the costs incurred for the return journey and are usually not eligible for per diem coverage. When the employee uses a personal vehicle, there are several systems for reimbursement, that can be determined in the company's travel policy: pro rata actual costs, vehicle-specific kilometer

Transport, travel and accommodation costs

Transport and travel costs usually cover two types of expenses incurred by the employee:

- On behalf of the company, usually during working hours or a specified project for example as part of a business trip
- For the everyday or usual home-workplace commute



rate, kilometer allowance set by the taxation authority. The reimbursement covers all costs associated with the use of the vehicle, including insurance, vehicle taxes, repair costs, etc. For other travel-related expenses, they are usually reimbursed up to the actual expense occurred, which requires an expense report. The company must be able to prove the actual expense to the taxation authority when expenses were reimbursed. Travel expense coverage is quite extensive, as it includes motorway tolls, vehicle consumables, cleaning products, as well as overnight stay in a second home.

transport, bicycle rental services, etc.) up to 50% for daily journeys. The use of a personal vehicle for business purposes is also reimbursed by the employer. The reimbursement is based on a tax rate and is exempt from social security contributions. Long-distance travel expenses are also covered by the employer, on a per diem reimbursement basis. commun ou les services de location de vélo.

For costs that are covered on an optional basis by the employer, the company sets its own reimbursement policy. The employer can decide to cover the specific costs if all employees are eligible.



Mandatory and Optional Coverage: The French System at a Glance

In France, the employer has an obligation to contribute to public transport costs (public

In May 2020, France introduced a sustainable mobility package. This package aims to encourage the use of alternative means of transport for home-workplace commute. Employers who decide to implement this package are eligible for tax and social security contributions exemptions. This is limited to €400 per year per employee. Other European countries introduced similar packages and companies are working with local authorities to introduce such schemes and encourage sustainable mobility to work.



How to Submit Expense Reports to the Taxation Authorities?

How the taxation authorities process business expenses can be complex and is country-specific.

Expense Report Taxation System

Business expenses can be defined as: “the expenses that an employee substantiates having incurred for the needs of his professional activity and for the employer’s benefit”. In most taxation systems, the employee must have actually incurred a business expense with personal funds to be reimbursed under the actual expense system.

Usually, the taxation authorities determine a specific framework for reporting business expenses. In Belgium and France, the social security administrations set the maximum rates for per diem allowances. In Germany, the Ministry of Finance sets the per diem rates. In Switzerland, reimbursement is based on an actual expense basis (with receipts), except for representation expenses which companies declare directly to the Federal Tax Administration.

The rules governing expense reports are often determined by the type of expense, specific to each legal system or company:

- Travelling expenses
- Meal expenses
- Accommodation expenses



Timeframe for creating and reimbursing the expense report

The reimbursement period will depend on several factors. Typically, the employee should be reimbursed promptly for efficient accounting and to maintain employee trust.

In Germany, the employee who incurred a travel expense must claim the reimbursement within 6 months of travel. In France, there is no regulation on the time limit for the creation of the expense report by the employee. However, there is a time limit of 2 years provided for in the Labour Code for claiming sums due in execution of the employment contract.





How to Substantiate a Business Expense With the Expense Report?

Usually, substantiating a business expense is only necessary for actual expenses reimbursement. However, some taxation authorities require proof of expense for per diem allowances.

Proof of Actual Expenses

When is a proof of expense necessary?

With actual expense reimbursement, any expense must be substantiated. The employee must be able to prove the expense. The receipt allows the company to confirm that the expense was actually incurred by the employee. It also allows taxation authorities to check that the amount reimbursed is tax-exempt.

Which documents can be used as proof of actual expenses?

The proof of the actual expense is the document issued by the supplier, proving that the expense has taken place and has been paid. This can be an invoice, a receipt, etc. The document must clearly state that it is issued to the company and not to the employee.

Wherever possible, the document should be an original and not a duplicate. The invoice must be dated and show the amount actually paid. A quotation cannot be used as proof. The same applies to a receipt that does not mention the amount paid, the date or the expense incurred.



What Does an Expense Report Contain?

Usually, the expense report is not subject to any formalities. The expense report can be typed or handwritten. It can be displayed as a Word or Excel table. It can also be produced using dedicated software.

Each company is free to choose its own model of expense reports, to be filled in by the employees. Although there are no rules on formality, it is important to develop a standard document for all employees. When designing a standard document for expense reports, some information should always be included, regardless of the country regulations.

Usually, the following information is required:

- Identity of the employee who incurred the expense
- Employee department within the company
- Date of expense (which must match the date of the receipt)
- Amount of the expense incurred by the employee, exclusive of tax and VAT
- VAT associated with the expense
- Purpose of the operation that resulted in the expense
- Classification of costs by category (meals, accommodation, travel)

For special expenses, the following should also be added:

- Distance travelled for the trip and total distance travelled since the beginning of the tax year for mileage expenses
- Names of guests for a restaurant invitation and names of companies represented by the guests for business meal expenses

What Should You Do in Case of Loss or Lack of Expense Receipt?

It is quite common for employees to lose invoices or receipts, or even to forget to ask for them when incurring the expense. Every year in France, around 30% of employees are not reimbursed for business expenses because they lost their receipts. In the UK, it was estimated that lost paper receipts cost almost £3,000 per year to a company spending the equivalent of 12 days per year chasing lost receipts.

Reimbursing an expense report without such proof is extremely risky for the company. The company would expose itself to an audit by the taxation authorities and consecutive fine. To avoid this, you can request a duplicate invoice from the supplier. If this is not possible, some taxation authorities might accept a bank statement with the date and amount of the transaction.

When no proof of the expense can be retrieved, the company should not proceed with reimbursing the employee.

Better yet, adopting a paperless expense tracking system is the best way to avoid complications from lost receipts.





How to Implement Paperless Expense Reports?

The digitisation of expense reports offers numerous benefits. The EU started the digitisation journey in 1999 with the electronic signature. The 2014 EU Regulation on electronic identification and trust services for electronic transaction aimed to the development of a European standard on electronic invoicing, by implementing the eIDAS (electronic IDentification, Authentication and trust Services). Since then, paperless systems are gradually becoming the norm in European systems. With the adoption of the EU Regulation national legal systems provided clarifications allowing paperless business documents including business reports in May 2017 in Germany, in July 2019 in France and in November 2020 in Spain. In Switzerland, the Federal Government adopted the Federal Act on Electronic Signature (ZertES) in 2016, based on the EU eIDAS.

What does digitisation mean?

Paperless expense reports allow the digitisation of business expenses. This involves digitally recording the expense report and the receipt information, and then archiving the data.

With digitisation, the risk of losing receipts is significantly reduced. Tracking business expenses is easier, expense reports processing is faster. Furthermore, expense reports can be processed entirely online.



Regulations for Paperless Expense Reports

Paper receipts used to be mandatory for expense reports. Many European countries now allow the use of digital expense reports. In France, paperless expense reports can be used under the following conditions:

- The digital version of the document must be identical to the original paper version: a genuine copy with regards to image and content, including colours
- The use of software to process or modify the image is prohibited
- Compression of the file is allowed as long as it is lossless

If the paperless expense report is not valid, it will be rejected by the taxation authorities. Reimbursements that occurred based on the rejected expense report may be treated as benefits in kind or as taxable expenses, or be subject to a fine.

Digitising and archiving expense reports

The online digitisation of expense reports covers both scanning and archiving.

European regulations apply to digitisation. Scanned files must be time-stamped and saved in PDF or PDF A/3 (ISO 19005-3) format. They must also meet one of the following criteria:

- Have a server stamp
- Have a digital footprint
- Contain an electronic signature (with a valid certificate)
- Use any equivalent secure device based on a certificate issued by a certification authority

For digital archiving or preservation of expense reports, a documented archiving procedure is required. This process should be subject to internal audits, and should ensure the availability, readability and integrity of the scanned documents. Finally, only the company or an authorised third party can use digital archiving for expense reports.



The authorised third party

As companies no longer have to carry out double archiving (paper and digital), they can now outsource digital archiving of expense reports to a mandated third party. Digital archiving can be done easily by using an expense report software.





How to Record Business expenses?

Expense reports management policy is specific to each company. Companies used to process expense reports monthly, as paper receipts were mandatory. Now you can implement more proactive strategies. The key is

to ensure that the chosen strategy is consistent with the company's needs and capacities.



Expense Report Management Strategies

Monthly processing was the preferred choice when expense reports had to be recorded in paper form. With monthly processing, the manager processes all the expense reports issued during the month, usually at the end of the month. But when there are many expense reports, there is a greater risk of errors or delays in processing all expense reports.

For some companies, expense report management is a weekly or even daily task. In this case, moving towards real-time processing might be particularly suited.

With real-time processing, business expenses are recorded directly by the employee via dedicated software. The manager has real-time access to expense reports and can arrange reimbursement more easily. In addition, real-time data entry allows for better control of expenses.

Which Recording Strategy Should You Choose?

To choose the right strategy for recording business expenses, you must first identify your needs and capacities. These factors can be significantly different from one company to another, especially depending on the size of the organisation.



Small and medium-sized companies

Small and medium-sized companies may rightly question the benefits of real-time management. If, for example, there are only a few expense reports per month, one might think that monthly management would be adequate.

However, SMEs often have more limited management capacity than large companies. The manager in charge of expense reports is usually the only person responsible for the company's accounting management. The risk of delay in managing occasional expense reports is quite high.

Ultimately, real-time management can be ideal for organisations with limited management and processing capacities. The manager does not need to design an expense report template or chase after receipts every month. The cost of the software needed for real-time management can be a barrier for small businesses. However, the investment pays off quickly as it allows for expense optimisation.

Large companies

Large companies tend to have more extensive business expense needs. Despite greater management capacities, the benefits of real-time management via dedicated software are beyond question.

A company whose employees travel regularly, or travel abroad will become more efficient with real-time management. In addition to offloading the administrative tasks of the travelling employees when they return from their mission, real-time management allows them to control expenses while on the move.

The only potential downside of real-time processing for large companies is the large-scale use of the software. Training sessions might be required, as well as the provision of the software or application to all affected employees. This downside is rather minor, given the user-friendly nature of today's software and the support offered by the suppliers.



Which Management Strategy Should You Use for Expense Reports?

Implementing an expense management strategy starts with adopting an expense management policy. Then, the company can act at all levels of expense management to enhance management and processing. This includes defining expense limits, implementing audit and accounting processes, and optimising VAT recovery.



Implementing a Business Expense Policy

Implementing an expense report management strategy is more important than you might think.

Carry out an audit of your expense reports practices

Before you start defining the management policy, first assess your situation. Deciding on a policy for managing business expenses depends on your needs and capabilities.

With an audit, either in-house or by a specialist auditing company, you can build a comprehensive and consistent expense strategy.

Companies that regularly resort to international travel should also implement an internal policy that anticipates international expenses. For expenses incurred abroad, particular attention should be paid to:

- Currency, exchange rates, and bank charges
- The language of supporting documents, and the high risk of fraud
- The applicable VAT and the local regulation applicable to VAT recovery

Set expense limits

Once you know your needs, you can set spending limits. For per diem expenses, you should, of course, refer to the taxation authorities' maximum rates when they exist.

For actual expenses, it is usually up to each company to set the limits, when these expenses cannot be tax deducted. Make sure that they meet the criteria of the taxation authorities regarding the substantiation of reimbursed expenses.

For mileage expenses, it will also be necessary to determine how the distance is calculated. You can choose to use GPS data, or a website like Google Maps. Either way, it must be defined before the expense is incurred.

Train employees on the expense management policy

Once you have defined your expense management policy, you need to inform your employees. Depending on the complexity of the policy, you might need to provide some training to your staff.

During this training, you can explain the company's strategy, the reimbursable business expenses, the limits you set, the recording method you chose or how to use the software or application.

Identify the focal point for the expense report processing

Regardless of your expense management policy, it is crucial to identify a person or a department who will act as a focal point. This is particularly important if you are using software.

This focal point can carry out real-time monitoring of expense reports by all employees. This person or department is also responsible for expense report management policy training and will act as the reference person for employees' questions.

In case of problems with the software or questions about its use, the focal point is responsible for contacting the software support services

Checking Supporting Documents



Checking expense reports and their supporting documents is a time-consuming task. Managers, administrators, finance and accounting departments must check each expense report. This step is important for detecting fraudulent expense reports.

The verification process implies checking that the actual expense is consistent with the receipt and that the receipt is valid. This task is even more complicated when using paper-based expense reports.

To optimise the verification process, you can organise expense reports by projects or teams.

Ultimately, digital processing can streamline this task. Lost receipts are no longer a problem. Verification can be done on a regular basis, and almost simultaneously, by several managers. Furthermore, digital processing reduces the risk of errors during verification.



Processing by the Accounting Department

Once the expense report has been created and the receipts checked by the team manager, the expense report is processed by the accounting department.

The accounting department is responsible for recording expense reports from an accounting point of view. This department can also carry out qualitative control, in particular to check that the expense limits have not been reached.

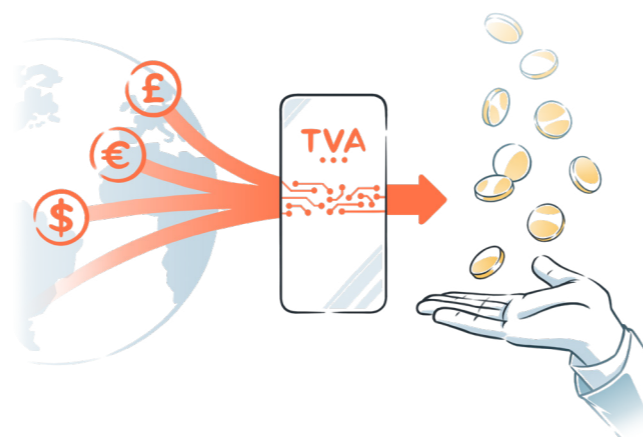
Business expenses should be recorded in the company purchases daybook or general journal daybook. The expenses are included in the company's bookkeeping according to the rules applicable to the company

Employee's Reimbursement

Once the expense report has been checked, accepted and processed by the accounting department, the employee can be reimbursed. Reimbursement is mandatory in some countries and prescribed by unions in others. In France, where reimbursement is compulsory, no provision in the employment contract can require that business expenses be paid by the employee.

There is not necessarily any legal deadline for reimbursement, but practice dictates that reimbursement be made rather quickly. Typically, reimbursement is made at the end of the month, with the next salary payment.

To ensure prompt reimbursement, digital management allows for faster verification and accounting processes.



VAT Recovery

VAT, or value added tax, is a tax collected by businesses and paid to the State. In many countries, companies can recover VAT on business expenses. VAT recovery is subject to conditions that are often country-specific and must be added to the expense management policy.

General requirements for VAT recovery on business expenses

The conditions for VAT recovery are country-specific. However, some rules are frequently applicable:

- The expense was necessary and was made for the company
- Expense report receipts have been recorded and are compliant
- The receipts show the VAT paid and the amount before tax
- The expense was incurred in the name of the company, which must be shown on the receipts
- VAT is payable by the supplier

VAT recovery for international expenses

The European Union implemented a local system for VAT recovery within the EU: the intra-community VAT. Outside the EU, however, VAT recovery works on a case-by-case basis.

Intra-community VAT for the European Union

Intra-community VAT recovery is possible whenever the supplier is a VAT-registered company and has an intra-Community VAT identification number. The supplied goods or services must also fall within the category of expense that allows VAT recovery in the country where the expense took place.

Intra-Community VAT recovery is now fully paperless. Claims are made on a quarterly or annual basis. The conditions are similar to local VAT recovery (supporting documents, indication of the amounts exclusive of VAT and with tax, information regarding the supplier, etc.).

The claim for intra-Community VAT recovery must be made before 30 September of the year "Y+1" following the expense.



Extra-Community VAT outside the European Union

Unlike intra-Community VAT, there is no paperless system common to all countries in the world to recover VAT.

Each country applies its own rules. It is advisable to check the VAT regulations before travelling to a country outside the European Union.





How to Use Automation for Expense Report Management

Thanks to digital expense reports, you can now use automation for processing business expenses. Compatible with any expense management policy, expense reports software allows for optimal management at all levels.



Automated management of staff entries and exits via the HRIS

The Human Resources Information System (HRIS) allows the automation of HR tasks. An integration with the expense report management software allows collaborative and synchronised work between the departments involved in expense report management.

Automatic and customised notifications

Automated expense management allows automatic detection of errors such as duplicates. You can also create customised notifications, for example when an expense exceeds a certain limit or when a fraud is suspected.

Dynamic workflows

Automation enables dynamic management of workflows. The management software adapts to profiles, allows you to manage sharing options and access rights, and to set up expense routing rules.

Customised accounting reports and analytical management

With paperless expense reports, you can export business expense data automatically in a customised way.

Automation enables analytical data management to reinforce expense management policy..

Conclusion: Why You Should Use an Expense Management Software

Why You Should Use an Expense Management Software

There are many reasons to use an expense management software. This is the perfect solution for moving from the current time-consuming paper-based management to automated management.

Time and Operating Cost Optimisation

With real-time management, processing expense reports becomes a time-efficient task. Less time spent managing expense reports also means your operating costs are significantly reduced.

Real-time access to expenses also allows you to better manage expenses with instant adjustments.

A simplified expense management process executed on the move

With management software, processes are simplified from the recording of business expenses to their reimbursement. Each employee involved in the process has access to an easy-to-use tool, perfectly suited for the company's processes.

Inputs can now be made on the move, during the business trip or when the employee is working from home.

Automated Expense Management for Faster Reimbursements

The expense reports management software is designed to be compatible with your accounting system. This allows, for example, to programme data transfer to accounting daybooks, to reduce the number of manual entries by the accounting department, and to ensure faster reimbursement and automated VAT recovery.

Data Security and Control for a Paperless Solution

With an expense management software, you can easily export data for optimal management.

Data storage is also secure and uses smart digital archiving. Digital expense reports can be used with central management, with easy access without the risk of damage or loss.

Finally, digital management and archiving is more economical and helps achieve the going paperless objective.

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