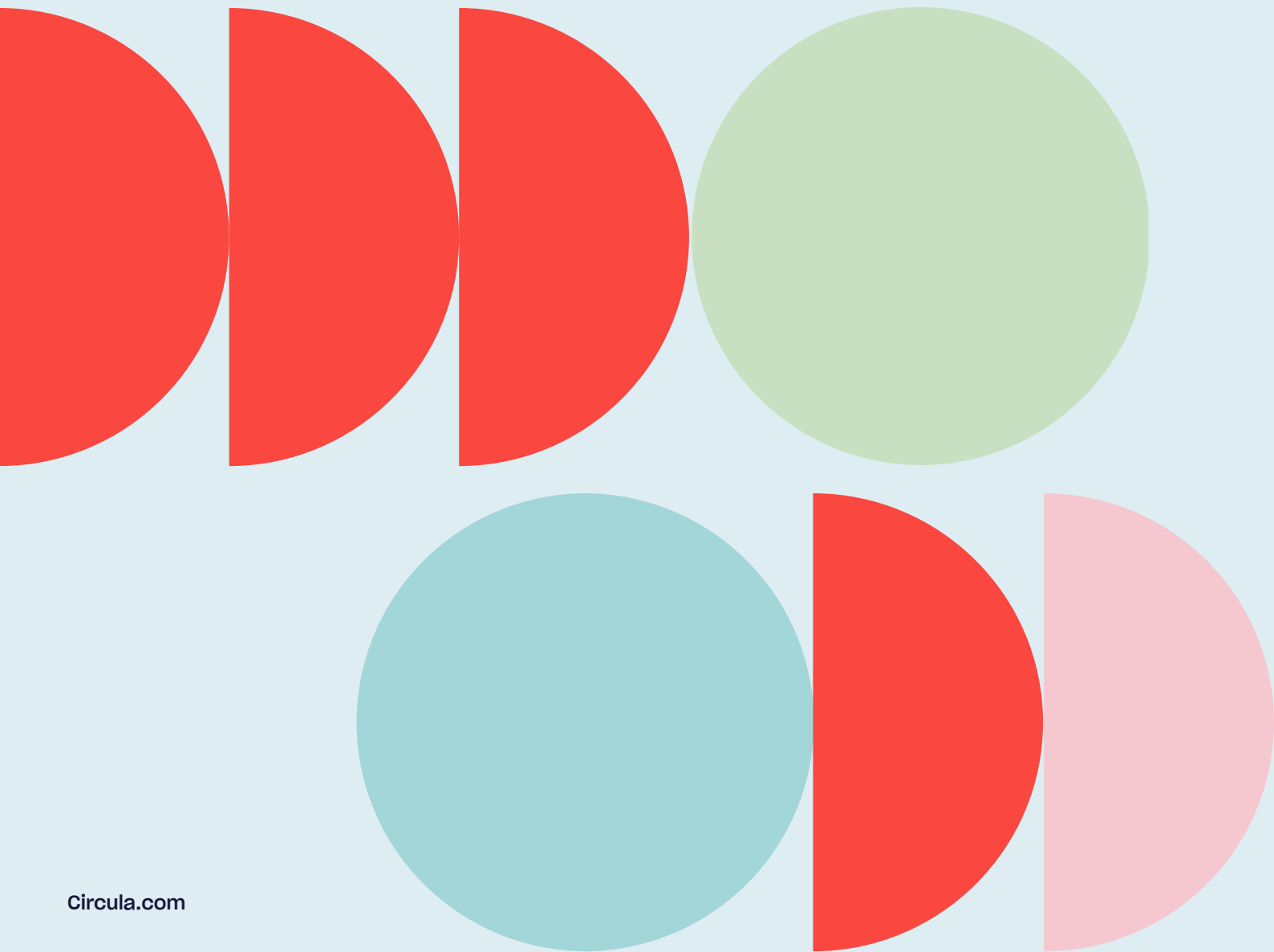


Circula

# Reimbursement of expenses: What companies should pay attention to

There are many special cases regarding reimbursement of expenses: Expenses abroad, international company events, and small amounts.



# Reimbursement of expenses, but correctly: What companies should pay attention to

Lunch at a customer meeting, the cost of a new first aid kit, or the cable for a projector - employees can have several costs reimbursed by their employer as expenses. But for companies to be able to claim the expenses for tax purposes, certain conditions must be met because there are pitfalls, particularly when it comes to expenses abroad and on business trips.

## Table of contents

Reimbursement of expenses, but correctly: What companies should pay attention to	1.
What are expenses?	2.
What is the difference between cash in transit and reimbursement of expenses?	3.
What requirements must be fulfilled before a company can book expenses in line with tax law?	3.
Reimbursement of expenses	4.
Company events abroad	4.
Special case: travel management	5.
Tips for the in-house use of a travel management tool	6.
Travel expenses: Guidelines prevent conflicts and non-reimbursement.	7.

## What are expenses?

Not every expense an employee incurs during their working hours is legally considered an expense that must be reimbursed by the company free of tax and contributions (§ 3 No. 50 EstG).

Expenses must be business-related or at least necessary for a specific business activity. The employee must have had no or only a minor interest in the purchase. For the sake of clarity, it should also be mentioned that ownership of the product is transferred to the employer upon purchase and that the employee may not take the product into their private hands. After all, the employee is not supposed to receive a gift but only to be reimbursed for expenses incurred.

So, if an employee spends the cost of a special projector cable because he urgently needs it for a presentation and it remains in the company, he can claim the cost as an expense. This is because a necessary expense did not arise from a private interest. It is even more evident in the case of the replacement purchase of a first aid kit: the expenditure was necessary for business purposes and is, therefore, to be reimbursed tax-free.

Meals on business trips can be paid directly by the employer or reimbursed to the employee via additional tax-free **meal expenses**.



## What is the difference between cash in transit and the reimbursement of expenses?

Regulations on reimbursing expenses refer to expenses that the employee has paid out of their pocket and transitory funds.

Pass-through payments are expenses paid to the employee in advance for regular expenses. For example, these can be the purchase of fruit for the office, the re-purchase of batteries, and more considerable expenses such as the annual purchase of customer gifts.

Both - reimbursement of expenses and money in transit - are tax-exempt under § 3 No. 50 EStG and exempt from social security contributions.

As a rule, however, a lump-sum reimbursement of expenses is fully taxable. It remains tax-free only under the following conditions:

- the expenses are regularly recurring,
- there is no enrichment of the employee, and
- the employee can provide detailed evidence of the expenses incurred for a representative period of three months. Thereafter, the lump sum can be paid on an ongoing basis without further proof.

## What are the requirements for the company to be able to book the expense under the tax law?

For small expenses, up to €250 gross, the employee does not have to submit an invoice, and the receipt is sufficient proof (small-amount invoices).

Even for more significant amounts, an invoice is not necessarily required. However, suppose companies want to claim an input tax deduction. In that case, they need an invoice that meets the legal requirements to consider the expenses. However, the sales receipt is still sufficient for small-value invoices.

If an employee purchases goods for their company on account, the invoice address must always be the company's address. Whether the employee himself or only the company is named is irrelevant. Important: If there is an invoice for an amount less than €250, this must also be made out to the company to obtain an input tax deduction.



## Reimbursement of expenses

For expenses incurred abroad, the question often arises of how to proceed with the foreign VAT.

If the company is not registered in the respective country, it usually cannot claim the foreign turnover tax in its advance turnover tax return. The company is therefore left to pay any higher turnover tax.

However, there is an agreement with many countries so that companies can be reimbursed for their costs through the so-called VAT refund procedure. The agreement applies to all member states in the EU; for third countries, the legal situation must be examined on a case-by-case basis.

A detailed explanation of the procedure would go beyond the scope of this article. For further details, please contact your tax advisor, the Chamber of Industry and Commerce, or the Federal Central Tax Office online

### Company events abroad



Expenses abroad are not only incurred during business trips but also at company events abroad. Flying together once a year to a major event to an attractive international location such as Majorca is a popular measure to strengthen the corporate culture. For tax purposes, however, it is advisable not to strive for records at such events but to keep your feet on the ground.

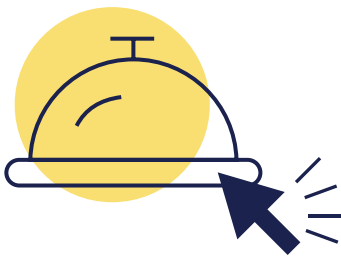
A maximum of two events with a maximum amount of €110 each may be granted tax-free per employee and year. However, if it becomes more expensive, it is a taxable non-cash benefit for the employee. This means that an amount exceeding the €110 limit would be added to the respective salary, thereby reducing the employee's net monthly income.



To avoid this, the state offers the so-called flat-rate taxation. Here, the entrepreneur deducts 25% of the taxable amount, and the employee does not lose anything. Since, in the past, there were often irregularities at company events, the tax office often checks such expenses particularly thoroughly. So, ensure from the outset that the location and the costs per person remain within justifiable limits. If not, use flat-rate taxation to keep the expense as low as possible.

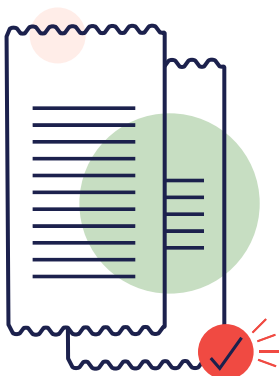
If you are already in Mallorca, managers like to add private holidays. For company events abroad, pay particular attention to clear documentation of expenses and activities to prove the business nature of the event: Lists of participants and the event program help to document private and company expenses.

## Special case: travel management



For business trips, one expense follows another - outbound and return flights, accommodation, meals, local transport, etc. - which is why travel management is so important. Organizing, accounting, and controlling business trips quickly becomes time-consuming for companies with few travel activities. Furthermore, accounting and travelling employees lack routine in dealing with travel expenses (e.g., business trips abroad), and familiarisation with current tax regulations takes time.

Large corporations usually outsource travel management to professional external partners who work much more efficiently. In the meantime, however, start-ups are also increasingly turning to having the booking and accounting processes handled centrally and externally. The most popular providers here are probably Travelperk and Comtravo.



The advantage is that the accounting department does not have to deal with a lot of paperwork, but in the end, a central invoice is posted with the various items. In addition, travel booking can also be decentralised, as travel expense guidelines can be stored in these tools and, moreover, booking is done in an intuitive interface with connected payment methods.

The prerequisite for this workflow to function smoothly, however, is a powerful travel management tool that has a sufficient number of interfaces to easily record expenses for trains, flights, etc. The external service provider also wants to be paid, of course.

Of course, the external service provider also wants to be paid, and the costs are not insignificant. Complete internal processing can pay off for companies with more than 200 employees and regular travel activity. Before that, external providers are usually more cost-efficient.

### **Tips for the in-house use of a travel management tool**

With a user-friendly tool, travelling employees can take a lot of work off the hands of the responsible clerks without hassle. In this case, centralisation is the wrong way to go about it.

Whether internal travel management is worthwhile depends mainly on the software used. When choosing a travel management tool, companies should make sure that not every booking (e.g., hotel = one booking, train journey = one booking, etc.) is billed individually, but fees are charged per journey. Otherwise, the expenses can quickly reach similar heights as with completely external processing.



Travel costs and expenses often make up a large part of the direct costs for companies in the project business. They should, therefore, continuously be tracked closely. Either project numbers or cost units are recommended for this purpose, which can then be used from the accounting data.

To ensure this, it should always verify that the planned travel management tool allows this kind of data collection. In addition, it must ensure that this information can also be passed on by an interface, e.g., to the accounting department or data storage.

## Travel expenses: guidelines prevent conflicts and non-reimbursement

Regardless of which software you use to settle travel expenses, you should explain in detail the “dos and don’ts” for travel expenses to your employees beforehand, ideally by creating a travel expense policy.



### Essential questions you should answer:

- What expense reimbursement limits apply to which expense categories?
- Which means of transport are reimbursed, and when do exceptions apply to the regulations?
- How is taking along a life partner regulated?

Make sure that there is a clear distinction between business travel and holidays. Summarise questions and answers in a compact document to give your employees security, avoid conflicts later on and reduce the overall travel costs.

For trouble-free tax recognition, make sure that your employees’ travel expenses are always in proportion to the turnover generated from the appointment. For example, if a million-dollar deal has been concluded, there is nothing wrong with staying in 5-star hotels and taking premium flights. However, suppose there is no turnover, or the turnover is low. In that case, the tax office will query the proportionality and instead see a financial advantage for the employee - and in the worst case, also refuse to classify it as a business expense.





# Circula

## The authors

The authors from Circula: Benjamin Bakali and Nikolai Skatchkov.

Circula offers medium-sized and internationally oriented companies a software-as-a-service solution for digital travel and expense reporting. Thanks to the intuitive user interface and AI-based technologies, it can process receipts in real-time and digitally archive with Circula for the first time in a GoBD-compliant manner.

The multi-award-winning (KPMG, Visa, PwC) technology company was founded in Berlin in 2017. Numerous innovative companies such as N26, Onefootball TeamViewer, and hundreds of other medium-sized companies already rely on Circula's solution. More information at: [www.circula.com](http://www.circula.com).



The authors from Coco Finance: Roman Finke and Silvio Schulz.

Coco Finance is a consultant and sparring partner for start-ups that set up their financial processes efficiently, in a structured and scalable way, with external support from the beginning. This allows start-ups can concentrate on their core competencies without neglecting the company's finances. Coco Finance draws on a broad network of experts who use their experience to promote entrepreneurship and lead start-ups to success. Lead start-ups to success.

Work more efficiently.

Try the effortless way to manage expenses.

Test 14 days free of charge



Circula

We make expense  
management  
effortless

