CHOOSING THE RIGHT ENTERPRISE EXPENSE SOLUTION CAPABILITIES

mobilexpense

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INTRODUCTION

Managing expenses is crucial for any company, and expense management solutions can help streamline the process of processing and reimbursing employee expenses.

However, choosing the right expense tool can be complex, with various factors such as tax laws, employee policies, exchange rates and tech stacks to consider.

Large enterprises face even more challenges, ranging from subsidiaries and branches in different countries, to legacy tools, differently structured departments with their own structures and workflows, and post-merger restructuring. To name but a few.

This e-book offers guidelines to help corporate decision-makers navigate the complexities involved in choosing the expense tool with the right architecture, focusing on the necessary capabilities and the system's ability to handle their corporation's complexity.

Because the goal of an expense system should always be to save you work, not create more.

CHOOSING THE RIGHT CAPABILITIES

You would be forgiven for thinking that a simple spend management tool is all you need to manage your expenses. But, depending on your company operations, you may require a host of additional capabilities from your expense architecture. These can range from digital signature support to the ability to customise different spend policies per employee profile.

Here are a few key questions that should be considered when looking at the capabilities of your corporate expense management solution.

1 CAN THE SOLUTION INCORPORATE LOCAL REGULATIONS?

Regulatory compliance of expenses is infamous for its complexity and particularities. Each nation has its own set of regulations on taxation, tax deductions and other expense-related matters. These complications can turn what could be a simple expense calculation into an arduous undertaking, especially if your corporation is active in multiple countries.

To illustrate just how exacting regulatory compliance can be in this field, this paper will further elaborate on a few regulation and compliance requirements that are common pitfalls for enterprises implementing an expense management tool.

2 VAT RECOVERY

Governments around the world impose different sales tax percentages on different categories of services and goods. It naturally follows that the expense categories on which you can reclaim said sales tax are not the same for each country. Mobile service plans, transport expenses and sometimes even food and drink bills may be eligible for VAT refunds to varying degrees.

If you start adding all this up, it becomes clear that being able to optimise VAT (Value Added Tax) recovery per country can make a huge difference to an organisation. It also means that an expense management architecture that handles this well can easily pay itself back many times over.

> *This is underlined by a 2019 study from Taxback International that indicates that companies worldwide fail to claim back as much as $ 30 billion each year just from travel expenditures. An additional $ 10 billion are incorrectly claimed as recoverable VAT, exposing corporations to hefty fines.*

3 MILEAGE RATES

Employee mileage reimbursement is an optional practice in which the employer reimburses an employee for work-related commute or travel. Companies are incentivised to do this because mileage reimbursements are tax-free up until a certain amount, while any amount exceeding that limit is taxed.

For example, an employer can opt to reimburse 0.5€/km in a country where the legal mileage rate is 0.35€/km. In that case, the additional 0.15€/km will be treated as paid out salary and taxed as such. The issue is that this maximum tax-free mileage rate varies per country (and sometimes even from city to city within a country!).

Of course, that is not the only complexity. The legal tax-free mileage rate is also determined by other factors such as the size and type of vehicle driven. In fact, Norway even has a mileage rate for snowmobiles!

Other complications include tracking which country's mileage rate applies when you travel abroad, as well as the challenge of continuously maintaining the most up-to-date national rates. Some countries, like the UK, review their rates on a quarterly basis, while others, such as Belgium, do so yearly or less frequently.

> *The legal tax-free mileage rate is also determined by factors such as the size and type of vehicle driven.*

4 PER DIEM (DAILY ALLOWANCE) RATES

A ***per diem*** is a fixed daily allowance that employees may receive to cover expenses such as accommodation and meals when traveling for work. As is the case with mileage rates, a maximum amount is legally determined as tax-free, while any excess allowance amount is taxed as if it were salary.

> *Furthermore,*
> *this tax-free daily allowance rate is influenced by a wide range of factors including but not limited to the location of the employee's home base, the duration of their travel and stay, their point of origin and their destination.*

Germany offers a good example of how specific these regulations can get at times. Various German cities have their own individual per diem rates, and some employees are even entitled to daily allowances if they have been travelling within their own city for longer than 8 hours. The country also implemented a special "three-month rule", which stipulates that allowances become taxable if an employee has been regularly staying in the same travel location over a span of three months or more.

Finally, you should also consider possible deductions to daily allowances. For instance, an employee travelling in Germany who enjoys the breakfast included in their lodging or is treated to lunch during a company-funded event must deduct a percentage of their allowance for that day. More specifically, a 20% allowance deduction applies to breakfast and a 40% deduction applies to lunch and dinner. The reasoning is that the employer has already paid for the employee's meal, which means that they are not entitled to further compensation for said meal.

5 SAF-T

The Standard Audit File for Tax (SAF-T) is an international standard that simplifies and standardises tax data formatting. As SAF-T is optional in some countries but mandatory in others, it is crucial that you check with your potential expense partner if their solution supports this bookkeeping standard for your enterprise when relevant.

6 KEEPING UP WITH REGULATORY CHANGES

Government authorities constantly create and modify regulations. To remain compliant, it is important to keep your expense architecture up to date by incorporating the latest changes in regulations, especially if you are a globally active company. However, doing this yourself leaves you prone to errors and is costly both in time and manpower. Therefore, you should search for a competent expense partner who will proactively maintain the expense solution for you.

7

PAPERLESS PROCESSING

If your employees keep losing their paper receipts, you will be ecstatic to hear that paperless processing is becoming mainstream. With regulators becoming increasingly fond of e-evidence, laws and regulations have emerged to support receipt digitisation for collecting and storing tax information.

Indeed, paperless expense management is fast becoming popular, with more and more countries rolling out support for paperless processing. At the same time, these countries also have introduced often stringent requirements that solution providers must comply with first.

In Spain, expense management companies must be homologated to offer legal paperless processing. In similar fashion, German expense companies must abide by GoBD compliance rules and receive official certification before they are allowed to provide digital tax documentation services.

To be 'paperless-ready', the solution provider must, among other things, be able to support digital signature, a feature that digitizes paper documents and certifies the digital copy as being identical to the scanned paper original. The signature is also a guarantee that the digital copy has not been tampered with. Digitally signed electronic invoices and receipts have the same legal validity as their paper equivalents in countries that allow them.

8

ORGANISATIONAL COMPLEXITY

Each department or entity may have their own procedures and expense budgets. Therefore, a specific workflow may be needed per entity. For instance, the approval process can be either serial, where each stakeholder has to successively sign off on an expense one at a time, or parallel, where a pool of stakeholders all give their stamp of approval independently from one another.

Moreover, employees sometimes need to cross-charge expenses across departments and projects. For example, employees on a three-day business trip might be asked to charge their day one expenses to Manufacturing and their day two and day three expenses to Sales. Similarly, departments may want to re-invoice expenses internally to another department or externally to a customer for consulting services.

Lastly, a company's internal organisation can undergo drastic restructuring in the wake of an M&A. The resulting merging progress often involves unifying or changing company procedures, which in turn can impact expense processing workflows that are already in place.

9 EMPLOYEE POLICIES AND COMPANY RULES

Enterprises work with a host of fine-grained policies and rules on an internal level. Each entity may use different processes and sets of rules, and that means a lot of customisations. Below, a few examples are given as to which aspects can be expected to be customisable per entity:

- **Employee profile-specific policies**: juniors may be given a lower maximum spend amount per hotel night than mediors and seniors or be subject to a different approval process in which multiple managers must approve their expenses.
- **Automatic or manual approval procedures**: items below a certain amount can be set to be automatically approved, while large purchases should always require manual approval.
- **Proofs of purchase**: depending on the type of expense, receipts or documents may be either optional or mandatory.
- **Spend limits**: different spend limits can be configurable per business unit, expense category or another parameter.
- **Warnings**: non-compliant expenses can be configured to be accepted with a warning message or automatically rejected altogether.

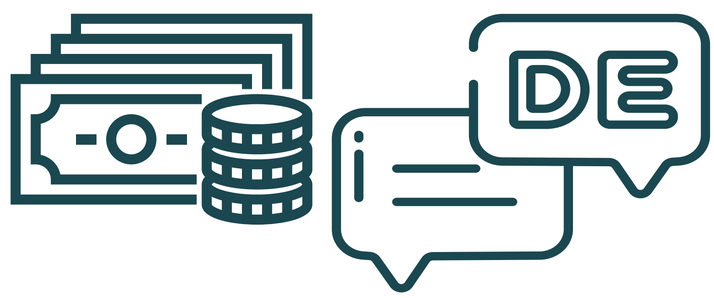
CONSIDERATIONS FOR EXPENSE MANAGEMENT SOLUTIONS

This chapter covers three main questions to consider when choosing an expense management solution. It highlights potential issues such as language barriers, cultural differences in expense policies, and the need for seamless integration with existing tools.

CAN THE SOLUTION HANDLE LOCAL CULTURE, LANGUAGE, AND CURRENCY?

The language and culture barrier is, unsurprisingly, the number one obstacle for any international company. It is not uncommon in multinationals for expenses to be submitted and approved in different countries or even regions. If the translations for cost categories are wrong, poor, or simply non-existent, the door is left wide open for misunderstandings between employees from different countries.

It is therefore crucial that your expense system is flexibly designed for translatability: admins should, for any and all fields, have the ability to implement their own translations or use company/country-specific terminology that users are most familiar with.



On a broader level, different cultural practices can also lead to differing expectations as to what actually constitutes a business cost in which context.

In some countries, for example, high-ranking employees may be allowed to expense country club memberships because those venues also double as places where business is conducted. Trying the same thing in Western Europe, though, would probably raise eyebrows among managers and financial auditors.

It is therefore important to make sure your solution can adapt to each country's specificities while maintaining general consistency.

Corporate history is awash with product localisation failures and cultural gaffes, and expense management solutions are no exception to this.

Aside from language and culture, currency can also cause headaches. That your expense architecture should be able to manage foreign currencies is a given, but your users might also demand more fine-grained currency features.

For example, financial controllers working in a centralised financial department may need to see transactions in both the foreign and their own base currency.

Another stumbling block can be regulations related to currency exchange rates. Currency conversions in an expense solution are usually performed by fetching the currency exchange rate on the day of the purchase from an aggregator site, which works perfectly in most cases.

However, some countries such as Bulgaria stipulate that the exchange rate must always be retrieved from their Central Bank instead. In these cases, the expense tool must use the state-supplied exchange rate where available, while the aggregator site serves as a complementary source for all other exchange rates.

> *To cut a long story short: whatever solution you use, it pays to check whether it is capable of handling international specificities in the way that you need it to.*

CAN THE SOLUTION MANAGE COMPANY COMPLEXITY?

It is no secret that large companies can get complex very fast. Smaller companies usually have a single individual wear many hats, but enterprises boast vast numbers of employees divided into departments and subsidiaries, with fleets of contractors and subcontractors to boot.

When adding other actors on top of this, such as cost centres, post M&A restructurings, employee policies and internal business rules, the whole project starts to look like a shaky Jenga tower of moving parts. Regardless, the expense solution you choose must be flexible enough to accommodate this complexity and adapt to changes.

CAN THE SOLUTION HANDLE YOUR TECH STACK?

An expense solution only realises its full potential when combined and integrated with the tools you currently use. Your payroll tools, ERP systems, HR solutions, accounting tools and travel tools all contain expense-related data that should be automatically fed into your expense management solution. However, two nasty surprise factors could lie in wait for the unsuspecting buyer, ready to ruin dreams of a seamless integration.

If you have ever been dismayed to learn that your favourite iOS app does not work on your mom's Android device, then the first surprise will undoubtedly be familiar to you.

> *Much like the way brands such as Apple or Google lock you into their ecosystem, a number of expense providers sell software that exclusively works with their own set of travel tools and not with external applications. This practice is called "vendor lock-in", and it can make integrating the new expense architecture with your existing tech stack difficult at best - and impossible at worst.*

Of course, there are some benefits to using vendor-specific systems. But purchasing non-agnostic software that refuses to harmonise with your tech stack generally leads to problems at some point in the future.

In addition, the complexity of your tech stack could also spring a surprise on you. In large corporations, business entities often make use of different applications and systems. In an ideal world, you would only have one general HR solution, one payroll system, one accounting tool and so on across all your departments.

In practice, business entities in multinationals often use different solutions and systems to achieve similar purposes. This makes it very difficult to roll out a standard expense solution that can simply be plugged into your tech stack without additional tweaks.

CONCLUSION

Suffice to say, finding the right corporate expense management solution is not a walk in the park. As a decision-maker, you have the complicated task of evaluating different options based on a multitude of internal and external factors, ranging from international language barriers to your existing tech stack.

It is all too easy to not see the wood for the trees and get overwhelmed or fed up when browsing for an enterprise expense management solution. As a result, corporations risk either overspending for product features that end up never getting used, or investing in a system that is unsuited to deal with the complexity at hand.

That being said, the benefits are plenty if you invest in the right solution with a full understanding of what your partner can provide and what your company is prepared to do. A good expense management system is the beating heart of a financially healthy and compliant company with happy employees, accountants, and auditors.

We hope that you, the reader, got some useful takeaways from the main issues scrutinised in this eBook. There is no one right answer, and it will not be easy to find the most suitable expense partner for your individual use case. Indeed, evaluating offers from expense vendors will be a long process of introspection and careful reasoning.

As it should be.

ABOUT US

With over 20 years of experience in local and global compliance, we help protect SMEs and large multinationals from costly mistakes by offering them digital expense management solutions to fit their needs.

Our teams are dedicated to expense management. It is the core of what we do, and we believe in the best-of-breed mindset. Which is why we partner with leading providers to offer our customers end-to-end solutions based on our open ecosystem.

And you can rest assured that all our solutions are compliant with regulatory updates and data safety regulations thanks to the work of our Compliance experts.

For more on this subject

CONTACT US

+31 (0)10 840 37 84

hello@mobilexpense.com

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