Marking your cards

Executive summary

- Companies need to assess whether to go for individual or corporate liability on company credit cards.
- A one-size-fits-all approach to corporate cards across Europe is likely to raise problems.
- Corporate cards increase control over employee spend.
- Travel and entertainment expenses are the second largest controllable budget area after employee salaries, so effective controls are essential.

The UK population's plastic-happy spending habits are well known. The amount of plastic currently in circulation in the UK equals two credit cards for every man, woman and child in the country, and it is safe to say that a significant proportion of the population has a whole family of cards nestling together in their wallets. Of these, around two million are corporate cards. And while most people successfully manage their credit cards, problems arise when the use, or abuse, of one affects the availability of the other.

This is one of the advantages of opting for a card with corporate rather than individual liability. Imagine the awkwardness of having an application for a corporate card turned down because of a bad personal credit rating: the extra work incurred, the special arrangements to be made, and the delays involved, not to mention the sheer embarrassment for all concerned. A place in the executive washroom suddenly doesn't seem quite so enticing if it results in financial dirty linen being the subject of senior-level gossip!

Similarly, a company that is slow to reimburse expenses or pay off an individual liability card can start to affect the executive's personal credit rating. Having a mortgage application turned down because the accounts team doesn't pay the bills on time sounds like an extremely good reason to be searching for alternative employment in the very near future.

Certainly in the UK, corporate liability cards are regarded as the way forward. Quite apart from solving the issues arising from the crossover of personal and business credit ratings, it helps companies keep an accurate record of exactly what their employees are paying for while away from the office. It's much harder to hide the family holiday with a corporate liability card, and, as a result, easier to prove compliance with anti-fraud regulations such as section 302 of the Sarbanes-Oxley Act.

Indeed, the growth in regulations on corporate governance has increased the interest in corporate liability cards. Full disclosure and transparency in financial dealings have become the watchwords of today's financial officers. With travel and entertainment expenses – those typically incurred on the corporate card – being the second largest controllable budget area after employee salaries, there is a clear advantage in ensuring that there are effective controls in place to manage them. While individual expenditure might be fairly minor in the wider scheme of things, as a total they represent an area with massive potential for financial confusion that runs counter to the current regulatory environment.

As well as spotting rogue purchases, a corporate liability programme often has other benefits. Not least of these is insurance cover against an employee going on an unauthorised spending spree. This can be enhanced by corporate liability waiver insurance, which covers organisations should their employees make inappropriate – and potentially damagingly expensive – use of their card.

More important considerations, though, are those related to the reasons behind the introduction of corporate cards in the first place: to provide greater management information on spending patterns, to guarantee compliance with company policy, and to negotiate preferential rates with regular vendors. Individual liability cards swiftly negate these advantages, making corporate control of business expenses that much harder to achieve.

However, for multinational organisations, the advantages of introducing a centrally administered, well-accepted, globally issued corporate credit card, with corporate liability, are high. The advantageous card and data fees, payment terms and cashback

deals, when aggregated across the whole user group, can prove a valuable reason for widespread adoption. But there are pitfalls round every corner. A one-size-fits-all approach to corporate cards across Europe is likely to raise problems of its own. Different laws, different regulations and different cultures all lead to a diverse range of attitudes to credit that cannot be ignored.

For example, Sweden is used to very short payment periods, and bankruptcy stays with defaulters for life. In Spain the formal process of debt collection was traditionally a very public affair, where, until recently, highly visible men in 19th century black costumes would approach debtors in person in order to extract the money with maximum humiliation.

These kind of cultural, historical and legal differences affect each nation's approach to credit use – and ultimately the take-up of corporate liability.

Compare the UK and Germany. When it comes to liability, the credit-happy UK is, on the whole, receptive to the idea of corporates taking on responsibility for business cards. But setting up a credit programme in Germany with corporate liability is far more problematic. Accepted practice in Germany is to take on individual liability for corporate cards. As a result, corporate liability cards tend to have lower usage.

There are several reasons for this. First, there is the low usage of credit cards among the population in general. Paying by debit cards is much the preferred option, so the perceived need for revolving credit is much lower.

In addition to the inherently credit-averse market, there are issues of individual privacy involved. German businesses are obliged to have representatives from their works councils, a close equivalent to British trades unions, on the board. The works councils have tended to obstruct perceived infringement of employees' rights to privacy, and a corporate card which shows personal spend and is submitted to the central accounts department for payment is seen to be such an infringement.

If we were to indulge for a moment in national stereotyping, we might put the German desire for immediate payment as an example of a highly developed need for efficiency. If we continued down this route we might also assume that Italy, for example, would be strong

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Box 1. Managing VAT with corporate cards

VAT reclamation is a major issue for most companies. For those with multinational operations or a widely travelled workforce, it presents a whole new set of challenges, particularly at a time when both local tax authorities and the EU Commission are focusing their attention on the VAT incurred by businesses on their travel and entertainment expenses. It is a complicated area, with varying rules and regulations across different countries to be taken into account. For example, VAT can be reclaimed on client entertainment in Germany but not in the UK. Similarly, car hire is reclaimable at 10% in Italy, 50% in Spain, but not at all in France.

What all these cases have in common is they rely on employee-driven evidence to support them. This can lead to further complications, however, as it can blur the lines between expenses incurred for an employee's individual purposes, and those legitimately incurred by that individual's employer.

In the interests of creating a more equal playing field across Europe, the EU Commission aims to remove competitive disparity on the recovery of VAT on travel and entertainment expenses. In a case against the Netherlands, the European Court of Justice has already ruled that where goods and services are supplied to an employee rather the employer, VAT cannot be recovered – unless there is evidence that the expense was incurred by the employer and not the individual.

In the UK, the European Court of Justice has also ruled against the deduction of VAT on fuel allowances and other employee expenses, deeming this to contravene EU law on input tax deduction. The UK tax authorities have taken a more relaxed approach and allowed businesses to recover VAT on fuel allowances, but this must be accompanied by evidence in the form of an invoice or VAT receipt.

The underlying principle – that individual expenses should be distinct from corporate outlay – can be easily supported by a card offering corporate liability. With such a card programme, the boundaries between the two are clearly delineated. Cards can also be labelled as being for corporate expenditure only, to further clarify the situation.

A corporate liability card programme can remove many of the challenges associated with VAT reclamation both in a national and international context. When run in conjunction with an automated expense management system, corporate cards can also make the process far more streamlined, accurate and effective.

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supporters of corporate liability. But Italy, too, prefers individual liability on corporate cards.

Credit card use among the general population is also low in Italy, and where they are used extended payment periods are standard. Corporate cards are accordingly seen as something of a perk – a status symbol or indication of achievement.

The idea of cards as status symbol is accompanied by a certain emotional engagement with them, which often runs counter to the logical, factual basis on which corporates need to make financial and operational decisions. In addition to which, there will always be mavericks within any organisation, who prefer to use their own cards anyway, and enjoy the benefits from their personal rewards package.

When companies wish to deploy a global credit programme, these are the kind of issues they need to consider. The more the corporate card is used, the greater the benefits in terms of rebate and the more benefit the organisation will derive from their introduction. Bringing in a card that will not be widely used, therefore, is rather self-defeating. The greater the use of corporate cards, the greater the advantages for the corporation.

A recent survey reported that 84% of treasurers felt they did not, as yet, have sufficient control over travel and entertainment expenses. But those who wish to change this situation need to draw a balance to maximise adoption, usage and (therefore) rebate while still maintaining control. A draconian approach, where reimbursement is only given on expenses incurred through the use of the corporate card and where no personal expenditure is allowed, runs the risk of alienating staff and reducing flexibility. The far more open policy of adopting personal liability runs the risk of personal spend and potential fraud. Nor does it offer any reason for an individual to stop using their own card and gaining their own rewards.

The balance needed will frequently be somewhere between these two positions, but will also vary between countries to make sure that adoption and usage are maximised, and the law is observed at all times. Corporate liability provides the benefits that drive the adoption of corporate cards in the first place and, logically, is the best option. But simply imposing it from a distant shore is unlikely to reap any rewards. For any organisation that wants to introduce global purchasing and card policies, time spent talking to local operations and establishing what really happens on the ground is going to be time well spent.

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