

Providing the professional, expert and specialist advice required to ensure contractors maximise their rewards and have peace of mind.

Orange Genie

Accountancy
Contractor and Small Business Specialists

A Contractor's guide to Claiming Business Expenses

INVESTORS IN PEOPLE
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A Contractor's guide to Claiming Business Expenses

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1.0 Introduction

Business expenses are the costs you incur whilst performing your business duties. They must be reasonable and must have been incurred “wholly, exclusively and necessarily” in the performance of your work duties for business purposes. There should always be a reasonable expectation that the expenditure will contribute towards future revenue generation.

HMRC can and do check what's been claimed and will ask you to provide evidence that the expense that has been incurred, was reasonable (i.e. supported with a receipt) and was a genuine business expense. Each time you claim business expenses you are asked to ensure that you only claim allowable expenses and that you retain the receipts.

You must keep copies of your receipts for your own records for 6 years.

A business expense is NOT:

- a private/personal expense
- an expense that has not been incurred

We will try to ensure that all claims are valid but we will not accept responsibility should any tax or NI charges be levied on you now, or in the future, for expenses disallowed by HMRC. Any underpayment of tax and NI as a result of erroneous claims will therefore result in you being personally responsible or the liability.

Some basic rules:

- Business expenses can be incurred personally and reclaimed as out of pocket expenses, you reclaim these at least on a monthly basis.
- All expense claims must be for reasonable expenses that you have incurred wholly, exclusively and necessarily in performing your business duties.
- You may be able to claim for expenses incurred prior to incorporation but you will need to talk to us.

Chargeable Expenses

These are expenses that you incur on behalf of your end client and which the end client has agreed to reimburse. The expenses should be recorded as usual within your records but they can be added to your invoice when you create it to ensure that the expenses are recharged to your client. If you are VAT registered, VAT will need to be added.

2.0 Travel , Subsistence & Accommodation

Where an assignment falls inside of the IR35 legislation, travel and subsistence expenses are not allowed and you would be seen to be a deemed employee.

If an assignment falls outside of IR35 then:

- Travel from your permanent place of work (which can include home) to a temporary work place is allowable - subject to the 24 month rule as set out below
- Subsistence related to these journeys can also be claimed
- You can claim for all forms of transport used e.g. public transport and mileage for the use of personal cars
- Parking fines, clamping charges and traffic offence fines are not allowed
- Direct costs of your own vehicle are not allowed as these costs are deemed to be included in the HMRC approved mileage rates.

Mileage claims are based on rates set by HMRC and cover the cost of fuel, depreciation, insurance and other running costs associated with the car whilst on a business journey. A record of your business miles should be retained. The current mileage rates applicable are as follows:

Vehicle Type	For business miles in a tax year (starting 6th April)	
	Up to 10,000 miles	Over 10,000 miles
Car/Van	45p/mile	25p/mile
Motorcycle	24p/mile	24p/mile
Bicycle	20p/mile	20p/mile

You must retain original VAT receipts for fuel. Please ensure that you ask for a VAT receipt from the retailer. You need to the mileage claim. Receipts will not match exact claims – they can cover multiple claims. You must adequately insure your vehicle for business use.



Subsistence e.g. lunch and coffees can be claimed when working outside of IR35 at a temporary workplace. Lunch must be in the form of a purchased meal or pre-packed sandwich and cannot merely be a reimbursement of ingredient costs where you have prepared your own lunch. Receipts are required.

If you are required to stay away overnight for business purposes you may also claim for a breakfast and evening meal. These particular expenses may also be available even if inside IR35. In addition you may claim a nightly allowance of £5 in the UK and £10 abroad to cover costs of “personal incidental expenses” such as laundry, private telephone calls and newspaper; receipts for these are not required. These can only be claimed if overnight expenses are also being claimed.

The 24 - month rule

If you are able to claim travel expenses to a temporary workplace, they will only be allowable provided you expect to visit the workplace for less than 24 months. As soon as you expect to spend more than 24 months in the workplace, it is deemed to become a permanent workplace and the cost of travel is no longer allowed as it is deemed to become ordinary commuting. The cost of associated expenses, such as accommodation, are not allowable at this stage either.

If you expect to spend more than 24 months at the same workplace please contact us.

Accommodation

If you are required to stay away overnight for business purposes, any costs incurred can be claimed from your company and will be allowable against Corporation Tax. The accommodation claimed must not relate to your permanent residence and for it to be allowable you should not be accompanied by your family.

Hotel bills can be claimed. As with all claims, the expense incurred should be “wholly and exclusively” for business purposes and there should be no personal benefit to you. The standard of accommodation should therefore not exceed that of your primary residence. The price and distance of your accommodation from your home are your decision but should be reasonable for the circumstances. Claims considered to be too close to your home may be rejected by HMRC. You must retain VAT receipts.

It is possible to stay with friends and family and claim up to a maximum of £25 per night. The claim must be supported by a covering letter confirming the address and dates on which you stayed. Please ensure the letter is signed by your friend or family member.

Renting a second property

If you relocate for the purposes of a long term contract and retain the costs of running a family home elsewhere, it may be possible to claim the cost of rent as an allowable business expense. This will depend on a lot of factors and you should discuss this with your accountant.

Use of Home

If your home is designated as your permanent place of work and you carry out your administration duties from you are can claim an allowance of £6 per week for each week you work. Receipts are not required. This is intended solely for the use of the actual space and does not cover items such as stationary etc. which may be claimed separately.

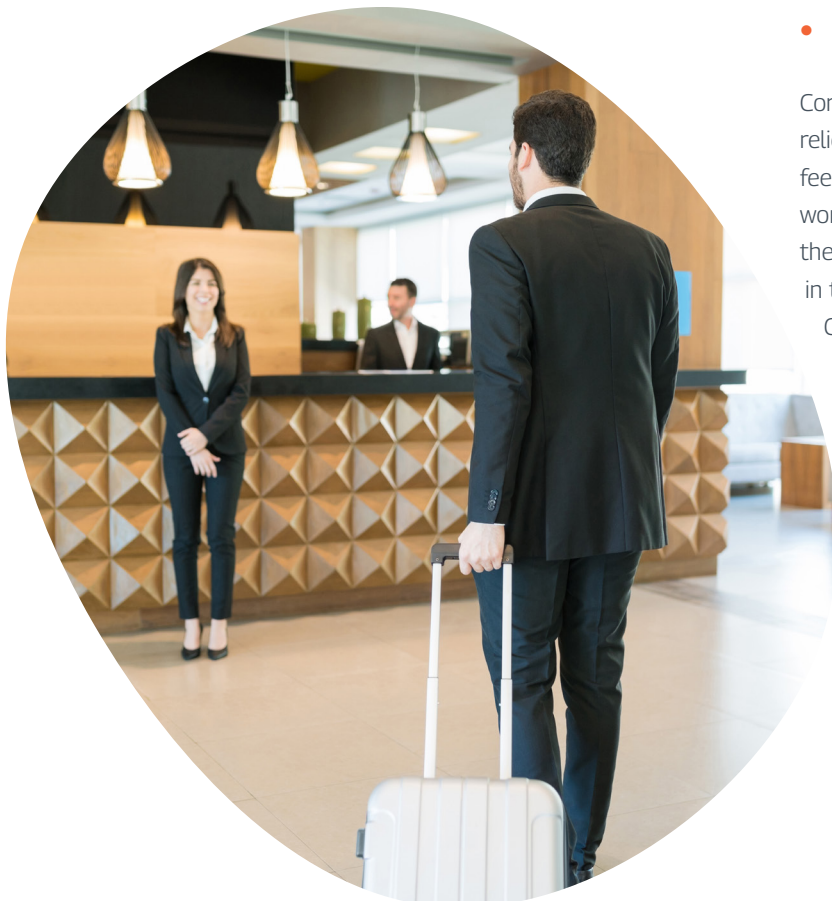
3.0 Professional Fees

Any professional fees incurred by your business are an allowable business expense. These could be:

- Legal fees
- Marketing consultancy fees
- Accountancy and tax planning advice fees

Corporation tax is given on all fees that relate to a relief business expense. For instance, all accountancy fees for statutor company returns and compliance work are allowable. The cost of a company is paid for by the company, it does not attract Corporation tax relief in the period incurred, but will be recognised against Capital Gains tax at a later closure or sale date.

Professional fees incurred in the preparation of your Self Assessment Tax Return are not “wholly and exclusive” for the business and therefore should be paid personally. At Genie Accountancy we prepare a basic tax return for all of clients free of charge, where we receive all necessary data before 31st October following the end of the tax year (subject to which tax year you became a client).



4.0 Professional Membership & Work Related Training

You may claim for subscriptions to professional bodies where the membership is necessary for the performance of your duties and the professional body is included on the HMRC approved list.

www.hmrc.gov.uk/list3

You can also claim for the cost of work related training to maintain or update your skills that are perceived to be of prospective new assignments.

If there is a clear link between the course and the company's ability to increase turnover this is good. Other associated costs such as travel to the training or accommodation costs are also allowable.

5.0 Entertaining

Business entertaining will relate to costs incurred entertaining potential or existing clients. The costs can be claimed through your company but no Corporation tax relief is available on these costs.

Any entertaining should be commercially reasonable and proportionate to the future potential business that is being sought and regard should be given to anti bribery legislation. Although no tax relief is available it is still worth claiming the expense through the business as the alternative is to pay out of personal taxed income.

Staff entertaining is allowable and attracts tax relief within certain limits.

An annual event is an allowable expense and will not incur a benefit for the employees, provided certain criteria are met:

- the total cost must not exceed £150 (inc VAT) per employee. If it exceeds this amount the whole amount fall to be treated as benefit in kind
- the event has to be open to all staff
- Partners may be invited, but if they are, all staff must be entitled to invite a partner. Invited partners are also given £150 per head allowance
- The allowance can be split over more than one event in a year but you have to be able to justify them as genuine annual events and not just a night out on an ad hoc basis
- If multiple events are held the total cost across all events must not exceed the £150 per head

6.0 Pensions

Pension contributions made to your pension plan by your company are allowable for Corporation tax purposes. The contribution has to be for the purpose of the trade and not the benefit of you.

Guidance on this is ambiguous but in general if your overall salary and pension does not cause your company to generate a tax loss then the contributions should qualify for tax relief. There is an annual allowance of £40,000 for 2019/20 which covers both yours and your company's contributions.

Whilst Genie Accountancy are not registered to provide Investment advice we can provide you with the details of an **Independent Financial Advisor** should you wish to discuss this further.



7.0 Insurance

KINGSBRIDGE
CONTRACTOR INSURANCE

When you are operating your own business, you will need to consider whether you need, or are indeed required by your contract, to take out any business insurances such as professional indemnity, public liability, employer liability or business equipment cover. These are all allowable business expenses. The level of insurance may be specified by the contract. We have a long standing relationship with Kingsbridge, who offer Orange Genie customers a 10% discount on their comprehensive package of insurance, as well as a price match service. If you wish to get a quote, please [click here](#), or alternatively contact Paige Grisley on 01242 335438 or email paige.grisley@kingsbridge.co.uk.

8.0 Childcare

It's possible to pay your childcare costs through a childcare account. For every £8 you pay in, the government will pay an extra £2. You can get up to £2000 a year per child in government support towards your childcare costs. you are responsible for any costs over £10,000.

9.0 Sundry expenses

Mobile Phones

No benefit in kind will be incurred if one mobile phone per employee is provided by your company and the cost of such a phone is an allowable business expense. To ensure that no benefit in kind is generated, the contract for the mobile phone must be between the Limited company and the mobile phone provider. The payment for the phone should go directly from the company bank account.

Home Phone and Internet

You may may claim the full cost of telephone calls for any business calls you make using your home or personal mobile phone. You need to retain your original itemised telephone bill highlighting the calls made showing the amount, including VAT, and totalled. It is possible to claim for an internet connection at your home if the contract is made with your company and payment is made directly from the company bank account. Private use must be insignificant and there should be no separate billing record between you and your business. If your calls are part of a packaged tariff no relief can be given for business calls.

Eyesight Test

You may claim the cost of an eyesight test where this is necessary for the use of visual display equipment in your work. If spectacles or contact lenses are prescribed you may also claim the full cost. A qualified optician must carry out the eyesight test and the original VAT receipt for the test must be supplied. Claims for contact lenses and/or spectacles must be supplied with proof from the optician that the expense has been incurred for VDU use whilst working. You must retain original VAT receipts.

If you have any queries, do not hesitate to get in touch with Genie Accountancy. Our friendly team of specialist contractor accountants would love to help you.



Contact Orange
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