

What Expenses can I Claim Through a Limited Company?

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Accountancy

ACCA

Find out what expenses you can claim as a contractor or freelancer to help you minimise your tax bill and maximise your profit.

Section	Content	Page
1.0	Background & General Rules About Limited Company Expenses	2 - 3
2.0	The General Practice of Claiming Expenses as a Contractor or Freelancer	3
3.0	The 24 Month Rule	4
4.0	Allowable Expenses for a Contractor or Freelancer (outside IR35)	5
4.1	<i>Accommodation - Hotels and Guesthouses</i>	5
4.2	<i>Accountancy Fees</i>	5
4.3	<i>Books, Periodicals and Professional Subscriptions</i>	5
4.4	<i>Business Insurances</i>	5
4.5	<i>Directors Salary</i>	6
4.6	<i>Hardware (computers, printers and peripherals)</i>	6
4.7	<i>Home Office</i>	6
4.8	<i>Meal Allowances</i>	6
4.9	<i>Mobile Phones</i>	6
4.10	<i>Other Professional Fees</i>	7
4.11	<i>Pensions</i>	7
4.12	<i>Software</i>	7
4.13	<i>Training</i>	7
4.14	<i>Travel Expenses</i>	7 - 8
5.0	Disallowable Expenses	9

1.0 Background & General Rules About Limited Company Expenses

Please note that this document is intended for guidance only and is not exhaustive. It does not replace the need for professional advice. We take no responsibility for any actions taken as a result of using this guide without professional advice from us.

It is a hot topic and one of the first questions on a contractors/freelancers mind.

‘What can I claim as an allowable tax deductible expense?’

The rules stipulated by HMRC for expenses are complex and change constantly. There are only a certain amount of expenses that qualify for corporation tax relief (for Ltd Co’s) and income tax relief (sole traders).

The good news is that we have concisely summarised the most common types of allowable tax deductible expenses you will come across.

But what do we mean by ‘tax deductible’. This is when an expense can be paid through the company before the deduction of tax. Let us illustrate this using a simple hypothetical example:

		Scenario 1 (£)	Scenario 2 (£)
a	Income	500	500
b	Expense (allowable)	200	0
c = a - b	Profit (before tax)	300	500
d	Corporation tax (19%)	57	95
e = c - d	Profit (after tax)	243	405
f	Expense (non-allowable)	0	200
g = e - f	Disposable income	243	205

In Scenario 1, the expense of £200 is allowable for tax purposes. In Scenario 2 it is not allowable for tax purposes and is therefore paid out of after tax profits. The difference in disposable income as a result is exactly 19%, equivalent to the rate of corporation tax.

As a general rule, any expense must be incurred ‘wholly & exclusively’ in the course of your business.

However, be careful of the ‘duality of purpose’ rules. This is when an expense has a dual purpose. For example, you take a legitimate business trip to Europe and decide to extend your stay for a few days to relax on the beach, the business element of the trip would have been fully allowable but as a personal element has been introduced, the whole trip becomes a non-allowable expense for tax purposes.

HMRC will allow expenses when there is obviously a business purpose motivating the expense and as long as there is no other obvious purpose. This is a key point because if there is another purpose HMRC will dispute the expense.

2.0 The General Practice of Claiming Expenses as a Contractor or Freelancer

- All expenses must be supported by valid receipts and/or evidence (such as a bank transaction), except in special circumstances where dispensations are given. Speak to us for further clarity.
- You cannot claim for something you have not incurred.
- If you're in doubt about whether you have incurred an allowable or disallowable expense, collect a receipt/evidence of the expense regardless and speak to us for guidance.



3.0 The 24 Month Rule

Contractors and freelancers are subject to the 24 month and 40% rules. This legislation was introduced in 1998 and caps the time a contractor/freelancer can claim certain expenses to 24 months in the same contract. Where a contractor/freelancer continuously returns to the same place of work after breaks or engaging in other short term contracts, they are tested against the 40% rule. The consequences of these rules are a severe restriction on expenses that are allowable for tax purposes. Please speak to us for further clarity about this area.



4.0 Allowable Expenses for a Contractor or Freelancer

(Outside of IR35)

4.1 Accommodation - Hotels and Guesthouses

If you incur accommodation expenses for business purposes this is an allowable expense. For most contractors & freelancers this is the occasional bed & breakfast or hotel bill for site visits or late night working. Remember the following:

- The hotel invoice must be to your Limited Company and paid through your business bank account.
- The costs must be 'reasonable' otherwise HMRC will dispute it.
- There must be no 'duality of purpose'.

4.2 Accountancy Fees

The good news is that your accountancy fees are allowable for a tax-deduction. Therefore, the taxman is in effect making a 19% contribution towards your fees (for Ltd Co's) and potentially more for sole traders.

4.3 Books, Periodicals and Professional Subscriptions

Certain professional subscriptions, books and periodicals are allowable as long as it's relevant to your business/contract.

Annual subscriptions to tabloid newspapers are unlikely to be allowable unless you can demonstrate it is necessary for your business.

4.4 Business Insurances

Allowable business related insurances include:

- Professional indemnity
- Key person
- Partnership protection
- Shareholder protection
- Employer's liability
- Public liability
- Relevant life policy (a life assurance product that can be paid to your Ltd Co)

4.5 Directors Salary

This would usually be kept to a certain limit in order to minimise income tax and national insurance.

For the financial year 2017/18, the minimum threshold to avoid income tax and class 1 national insurance is £8,164 per annum (£680.33 per month). A salary up to £11,500 is still free of income tax but a small amount of class 1 (employer's and employee's) national insurance would be payable.

4.6 Hardware (computers, printers, peripherals etc)

Computers and printers are allowable and will attract capital allowances as long as it can be demonstrated it is used in the course of your contract/business. From 6th April 2017 the first year annual investment allowance (AIA) is £200,000.

Items acquired for general family use will be disallowed.

4.7 Home Office

Contractors/freelancers can claim a flat rate of £4 per week for an office in their private dwelling without providing any evidence or receipts.

Further amounts are claimable based on sq ft and time spent metrics but please speak to us for guidance as this is a complex area.

4.8 Meal Allowances

If you are working away from your normal place of work then you may claim the meal costs through your company. An example includes visiting a client site and buying lunch (including non-alcoholic drinks) whilst on site.

Any expenses for meals must be incurred and receipted.

Also, putting your weekly shopping expenses through your company is not allowable.

4.9 Mobile Phones

The costs of business related calls are allowable. As a contractor/freelancer, your Limited Company is permitted to take out one mobile phone contract.

The monthly contract fees are then allowable, however, any personal calls are disallowed.

4.10 Other Professional Fees

Other professional fees such as solicitors and agents costs are allowable as long as they are wholly and exclusively incurred in the line of your business.

4.11 Pensions

Contractors/freelancers can run a pension through their limited company as long as it's with an approved HMRC scheme (speak to us for guidance on this). It's a good tax break intended to help provide provision for their retirement.

4.12 Software

Software packages and programs incurred solely for use in your line of business/contract are allowable.

4.13 Training

You may claim training expenses as long it is relevant to the contract or type of work you are undertaking.

For example, if you are an IT contractor and embark upon a sports science course to enhance your knowledge, this will be deemed as 'non-relevant' and therefore not allowable.

The training must impart, instil, improve or reinforce knowledge, skills or qualities that will prove useful when performing your duties on behalf of your company as a whole.

4.14 Travel Expenses

Providing the place you travel to is a temporary place of work, which generally means a place you have not travelled to for more than 2 years and you are not intending to travel to for over 2 years, you can claim travel expenses. However, in the 2017-18 tax year, contractors classed within IR35 will not be able to claim tax relief on their travelling expenses.

4.14.1 Private Car

When using your car for business travel you can claim a mileage allowance, the current rates of which are:

- 45p per business mile for the first 10,000 miles; and
- 25p per mile thereafter

These rates are intended to cover all costs associated with fuel and wear & tear on the motor vehicle. A detailed log of all business miles incurred must be kept to justify the expense being claimed. We provide a piece of software that allows you to record your mileage as part of our package deals.

4.14.2 Public Transport

Trains, the underground and other forms of public transport (including planes and taxis) are claimable separately as they are incurred.

4.14.3 Bicycles and Motorcycles

Contractors/freelancers can claim a mileage allowance relief (MAR) on business travel using their own bicycle or motorcycle to and from their client's location.

The rates for business journeys using their motorcycle or bicycle are:

- Motorcycles at 24p per business mile
- Bicycles at 20p per business mile

Unlike car mileage there is no lower rate after the first 10,000 miles; these rates apply to the total business mileage incurred when travelling to and from work.

Please note that the above mentioned expenses are not exhaustive, but merely represent the most common contractor/freelancer Ltd Co expenses that are incurred.

If there are certain expenses you have or intend to incur that you are unsure of, please speak to your designated accountant.

5.0 Disallowable Expenses

- Entertainment expenses
However, an annual tax free social function is allowed, with a limit of up to £150 per head per director/staff member. Partners of directors/staff are also allowed.
- Clothing expenses
Business attire is disallowable but specialist clothing in some trades can be deductible. Speak to us for further guidance.
- Expenses that have a personal element.



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