



What Expenses can I Claim through my Company



Introduction and Background to Expenses

Claiming expenses through your company is one of the fundamentals of being a contractor and a particularly hot topic.

Understandably, one of the most asked questions for a contractor/freelancer is “Which expenses can go through the company?”

HMRC have guidelines as to what is and is not allowable with some specifics on fixed rate allowances (e.g. subsistence, mileage, etc). The guidelines frequently change so it’s worth keeping up to date.

Expenses are tax deductible costs that can be used to reduce the company’s corporation tax liability. By tax deductible, we refer to costs that can be used to reduce the taxable profit of the company. So for example:-

	With Expenses	Without Expenses
Income	£5,000	£5,000
Expenses	£1,000	£0
Taxable Profit	£4,000	£5,000
Tax @ 20%	£800	£1,000
Profit After Tax	£3,200	£4,000

As shown above, the effect of including expenses is to reduce the amount of corporation tax by 20% of the expenses total.

The general rule for any cost to be allowable for tax purposes is that it must be “wholly, exclusively and necessarily incurred” during the course of your business. This gives us quite a wide scope to consider various expenses that may well fit with your business activities.

HMRC will generally allow expenses where there’s a clear business purpose and no other obvious purpose. If there is another purpose to the cost, then HMRC are likely to query the expense should they take a closer look.

Process and General Practice of Claiming Expenses

There are a few guidelines that must be adhered to in order for such costs to be allowable for tax purposes:-

- All expenses should be backed up with evidence (e.g. receipts, bank transactions) except where HMRC have allowed dispensations or the company is using the approved fixed cost allowances (e.g. mileage, subsistence)
- Only genuine costs incurred are allowable

- For expenses that you're not sure about, please obtain a receipt and feel free to ask us

What is the 24 Month Rule?

All contractors and freelancers fall within the 24 month and 40% rule, where a worker continuously carries out their activities from the same place of work. Should the contractor/freelancer remain at the same location for more than 24 months, they cannot claim travel and subsistence expenses from the moment they are aware that the 24 month period will be breached. For example, if at month 21 you sign a 4 month extension, at the point of signing up, no further travel and subsistence expenses may be claimed.

Similarly, if a contractor/freelancer takes a break or moves on to another client or contract for a period, then returns they could be caught by the 40% rule. Please speak to us if you're in doubt or unsure if either of these would apply to you.

What can I claim through expenses?

Whilst we can list a number of different expenses, these are not exhaustive. Each contractor/freelancer will incur different expenses that relate to their own circumstances. If you come across an expense that you think requires clarification, please obtain a receipt then discuss with ourselves.

Examples of expenses are:-

- Accountancy fees
- Business insurances – including professional indemnity, public liability, employers liability, key person, relevant life policy (please speak with our Wealth Management team)
- Books, Periodicals and Professional Subscriptions
- Directors Remuneration – for salary structures and planning, please speak with a member of our team
- Hardware, Software and Consumables
- Use of Home Allowance – HMRC have stipulated a flat rate of £4 per week for the use of office without evidencing through receipts. In certain circumstances, this could be varied and would recommend speaking with a member of our team to discuss
- Subsistence and Meal Allowances – if you're working away from your normal place of work then you may claim the cost of meals through your company when supported by a receipt. HMRC do provide a fixed allowance which does not require receipt and depending on the length of time on site, please speak to a member of our team for further information

- Mobile Phones – the costs of business calls are allowable. It is however preferable if your limited company takes out a mobile phone contract. The contract is then allowable with any personal calls disallowed.
- Pensions – contractors & freelancers can run a pension through the company. This is a tax efficient method of saving using company funds. Please speak with our Wealth Management team for further details.
- Other Professional fees – provided the costs meet the “wholly, exclusively and necessary” rule they will be allowable. Such items include solicitors and agent costs.
- Software – those that are solely for use in the business are allowable.
- Training – the training must “impart, instil, improve or reinforce knowledge, skills or qualities that will be useful when performing your duties on behalf of your company as a whole. Any training costs must be relevant to the contract or type of work you carry out.
- Travel – provided the place you’re travelling to is a temporary place of work and you don’t fall foul of the 2 year rule (please see previous section), you can claim travel expenses. If however you’re within the IR35 regime, you’ll not be able to claim tax relief on these costs from 2017/17 onwards.
- Travel (Private Car) – when claiming business travel for use of your personal car, the current rates are:-
 - 45p per business mile for the first 10,000 in a tax year
 - 25p per mile thereafter

The rates are intended to cover all associated running costs of the vehicle. A detailed log of the business miles should be kept and to assist we provide you with the software in order to maintain the log.
- Travel (Bicycles and Motorbikes) – as with above, detailed logs should be maintained using the software provided. The mileage rates are as follows:-
 - Motorcycles at 24p per business mile
 - Bicycles at 20p per business mile
- Travel (Public Transport) – these are claimable as they’re incurred and should be supported by tickets/receipts. This includes busses, underground, trams, taxis, planes, etc.

Whilst the above list is not exhaustive, they’re the main expenses we see going through the accounts of contractors and freelancers.

If you are incurring certain other items and would like to discuss, please feel free to contact a member of our team.

Other Expenses – Disallowable

There are certain other costs that may go through the company but they won't be allowable for tax purposes. These include:-

- Entertainment – general entertaining is not allowable. There is a £150 per head available for a social function (e.g. Christmas party)
- Clothing – is generally not allowable unless it's specific clothing that's required for the purposes of the trade or it's suitably branded
- Personal – any personal expenses are not allowable