

EXPENSES GUIDE

INTRODUCTION

A Limited Company is charged corporation tax on profit it generates. This is calculated as being:

+ Income	X
- Less "allowable" business expenses	(X)
= Taxable Profit	X

"Allowable" expenses lower company profits and lower the amount of Corporation Tax that is payable.

<u>ABC Limited</u>		
<u>Profit and Loss Account</u>		
Turnover	£	£
Sales invoiced		50,000
Expenditure ("allowable expenses")		
Directors' salaries	12,000	
Directors' social security	840	
Post and stationery	45	
Travel and subsistence	3,060	
Telephone	50	
Broadband	50	
Sundry expenses	15	
Accountancy	1,440	
		(17,500)
Taxable Profit		32,500
Corporation Tax (19%)		(6,175)
Available Profit		26,325

WHICH EXPENSES ARE “ALLOWABLE”?

The rule for claiming business expenses is that they should be incurred “wholly and exclusively” for business purposes.

This means that the expense must relate solely to your Limited Company and its trading.

The following table covers the most common types of expenses that are and are not “allowable” for contractors.

Expense	Allowable	Not Allowable	Income Tax Rate
Accountancy Fees	▪		
Director’s Salary	▪		
Employers National Insurance	▪		
Subsistence	▪		Point 1
Computer Equipment	▪		
Business Travel	▪		
Petrol Costs		▪	Point 2
Motor Costs		▪	Point 2
Business Telephone / Broadband	▪		Point 3
Business Insurance	▪		Point 4
Home Expenses	▪		Point 5

ADDITIONAL INFORMATION

1. Subsistence

Claiming the cost of refreshments purchased for lunch each day is a grey area, as HMRC could argue that you would have had to buy lunch regardless of your business engagements. If you are working away on a remote site, or when staying away from home overnight, you can claim for subsistence. This should be supported with a receipt, not be excessive or include alcohol. Daily round sum claims for meals are not allowed.

2. Business Mileage

Car mileage can be claimed at 45p for the first 10,000 miles in the tax year and 25p thereafter. This is instead of claiming running costs for your car. A mileage log should be maintained to support the claims, detailing date of trip, reason for trip and post codes for each location you are travelling to and from. Where you wish to reclaim input VAT on your mileage, you need to provide details of your car’s engine size and fuel type. You must also ensure you keep all fuel receipts in order to substantiate the claim.

3. Business Broadband & Telephone

To be an “allowable” expense, business broadband and telephone costs should be invoiced in the Limited Company name.

4. Business Insurance

Insurance can be claimed as a business expense where you can show that the cover is required purely for business purposes. This typically includes public liability, employer’s liability, professional indemnity, legal expenses, tax investigation, equipment and health insurances. Be aware that where there is a personal benefit, such as with health insurance, there will be a taxable benefit in kind. Please contact your accounts manager for more information.

5. Use of home allowance – Working from home

Where you work from home on a regular basis, you can claim an expense deduction of £4 per week or £18 per month in respect of additional costs - such as gas or electricity charges - incurred as a result from working at home. You are not required to keep evidence to substantiate the claim.

If you wish to claim more than this amount, you must keep receipts and show how the figure has been calculated. It is important to note that fixed costs such as council tax, unmetered water, etc. are not allowable as homeworking would not increase these costs in any way.

6. 24 month rule (Travel & Subsistence)

Any contractor who works on the same site (or is aware they will be working on the same site) for 24 months or more is caught under the 24 month rule by HMRC. As a result, from this date, travel and subsistence associated with this location cannot be claimed.

7. IR35 (Travel & Subsistence)

As of 6th April 2016, the introduction of new legislation has meant that where a contractor is caught by IR35, they are automatically deemed to be under supervision, direction and control (SDC) over the manner on which the work is provided and as such cannot claim travel and subsistence associated with their commute between the home and office (and vice versa).

HOW DO I SUBMIT MY EXPENSES?

How do I submit my expenses?

The MyAccountant.co.uk expenses spreadsheet should be completed on a monthly basis and sent to your Accounts Manager along with your bank statements.

Do I need to keep my receipts?

Yes, receipts should be retained for all business expenses. They should be retained for 6 years in case HMRC requests to see them.

Who do I contact with expense queries?

If you have any queries on allowable expenses please contact your Accounts Manager who will be happy to assist you.