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EXPENSE CLAIMS AND ALLOWANCES

There is in accounting terms no limit to what can be "put through" the company, but many items will not be allowable for tax or vat purposes, meaning putting them through the company has no effect, or possibly costs extra in benefit in kind charges.   Below is a common list of allowable items:

	Tax Revenue	Tax Capital	VAT	
Accountancy	√		√	
Advertising & promotion	√		√	
Bank charges	√		X	
Company formation	X		√	
Computer software	√		√	
Computer consumables	√		√	
Computer purchase & peripherals		√	√	
Entertaining – staff	X		√	
Entertaining – customers	X		X	
Equipment insurance	√		X	
Home office	√		X	Normally claimed as round sum
Hotels/b&b	√**		√	
Internet service provider	√		√	
Legal expenses	√		√	
Mileage claims	√**		√	VAT on fuel element only
Mobile telephone	√**		√	
Newspapers & journals	√		X	
Office equipment & furniture		√	√	
Opticians costs and eye tests	√		X	Where the work necessitates
Parking	√**		√	
Pension payments	√**		X	
Postage	√		X	
Protective clothing	√**		√	Where the work necessitates
Professional/Public Indemnity Insurance	√**		X	
Reference books	√		X	Vat recoverable in part if disks/cd included
Rented property (job related)	√**		X	
Relocation costs (job related)	√**		√	
Sub contractor costs	√**		√	
Travel (rail/ferry/air)	√**		X	
Subsistence	√**		√	Distinguished from entertaining
Stationery	√		√	
Telephone costs	√**		√	
Tools	√**		√	
Training courses & materials	√		√	

** These items are direct expenses for IR35 and allowed in addition to the 5% overhead allowance – see below.

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EXPENSE CLAIMS AND ALLOWANCES - *continued*

The following are not normally allowable for tax or vat:

Entertaining – existing/potential clients/associates	Gym/sports club membership
Health insurance	Life insurance
Medical or dental expenses	Office clothes
Income protection insurance	Child care costs

In most cases disallowable expenses can be put through the company, but whilst they save Corporation Tax at 21% they create a personal Income Tax charge at 20% / 40% and a employers NI charge at 12.8%, i.e. a net charge to tax. So, although these items *can* go through the company you are better off *not doing so*.

Where income is caught by IR35 only direct expenses can be deducted against Income Tax/NI. Items marked ** will normally qualify as a direct expense for IR35 where they are related to a specific contract.. Other items which are allowable as a revenue expense for taxation will have to come from the 5% general expense allowance under IR35 and will not be relieved if they exceed the sum of the 5% allowance and any non IR35 income – see the section on IR35 for more explanation. NB IR35 does not affect VAT.

The above is a guide only – there are numerous subtle nuances to expense allowance, and all claims will need to be reviewed by your accountant at the year end.

Expenses are only allowable where they are business related – for example expenses related to your family or domestic life would not normally be allowable, although in some cases where temporary work related accommodation is involved there is an overlap.

Tax allowance

For tax purposes expenses are classified as revenue or capital. Revenue expenses are day to day expenses where the benefit is short term. Capital expenses are longer term items of expenditure incurred in acquiring an asset, for example computer or furniture purchase.

Revenue expenses are written off against tax when incurred.

Capital expenditure of up to £50,000 pa is normally written off in full; expenditure in excess of that is written off over a period.

Not all capital expense attract relief. Broadly speaking:

- equipment, eg vans, motorcycles, computers, desks, office equipment, machinery, are relieved under the £50,000 provisions above.
- premises (including land) attract no tax relief.
- cars are subject to special rules which depend on engine size – however in most, if not all cases, it is more beneficial to own the car privately.

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EXPENSE CLAIMS AND ALLOWANCES *- continued*

The treatment for capital expenses outlined above applies for taxation only. In order to comply with accounting standards your business accounts will still show the assets depreciated over a suitable period, normally 25% pa reducing balance. This means an item will normally be written off for tax purposes before it is written off in the annual accounts. In the Tax Computations an adjustment is made to move from the depreciation charged in the accounts to the amount of relief due above.

Interaction of Corporation Tax, Income Tax and National Insurance

As mentioned above, most expenditure can be put through a company even if not tax allowable. If not tax allowable it will either (a) be added back in the Corporation Tax computation so relief is not claimed on it, (b) charged as a benefit in kind or (c) charged to the directors current account. The latter is more likely, although this is not without complications and can sometimes have adverse NI consequences even if tax relief isn't claimed.

Benefits in kind are allowable for Corporation Tax but are not allowable for Income Tax so they are added on to your personal income and taxed in a similar way to salary either via your PAYE code or your Self Assessment Return. Benefits are normally subject to Employers National Insurance as well at 12.8%. Benefits paid by the company are reported to HMRC on form P11D.

Because of the bureaucracy surrounding reporting and taxing benefits, and the NI cost, it is easiest to ensure that expenditure which would constitute a benefit is excluded from the company accounts in the first place. As explained above this creates an overall tax/NI saving in any event.

> – eg putting Heath Insurance through the company does not save any tax at all but requires a P11D to be prepared together with appropriate entries on your Self Assessment return. A Corporation Tax allowance at 21% will be given with a personal Income Tax charge at 20%/40% and a employers NI charge at 12.8%, i.e. a net charge to tax. It is easier and cheaper to pay your Health Insurance from a private account!

EXPENSE CLAIMS AND ALLOWANCES – *continued*

Travel and subsistence

Travel, accommodation and subsistence is a contentious area. Historically HMRC tried to deny relief if there was any element of travel from home to site, or if there was a claim for accommodation away from home at one site; the contention arose in deciding where the regular place of work was.

New rules came in from 5 April 1998. The basic rules applicable to contractors are:

(a) Travel, accommodation and subsistence on non site business journeys, eg to conferences, exhibitions, interviews, accountants, bank, agency, etc, are all allowable.

(b) Journeys from main workplace to other workplaces are allowable.

(c) Journeys to and from home to a temporary work place are allowable if:

(i) the contract is expected to be for less than two years; or

(ii) the contract is for more than two years but you spend less than 40% of your time at the site.

The two year rule applies on intent, eg:

If the contract is intended to be 36 months then nothing is claimable (unless to 40% exemption applies);

If the 36 month contract is reduced to 20 months at month 14, then although nothing is claimable for months 1-14, a claim can be made for months 15-20.

If a 20 month contract is extended to 40 months at month 18, then a claim can be made for months 1-17, but not for months 18 onwards.

A restriction applies regarding the location of temporary workplaces. The restriction classes two work places as one if they are close together, even if they are otherwise unrelated, eg different clients. The example given by HMRC in their guidance is of a contractor working at one bank in the City and then moving to another in the same road – these workplaces would be treated as the same place for the 24 month test.

Subject to this, travel costs by rail, ferry, road (public transport or own vehicle) or air may be claimed, as can bed and breakfast or rent. An element of reasonableness is important, and therefore we would not normally recommend claiming the costs of evening or lunch time meals when working at your normal workplace, as you would need these anyway, likewise "overloaded" expense claims can be difficult to defend.

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EXPENSE CLAIMS AND ALLOWANCES – *continued*

HM Revenue and Customs have produced a table of scale rate subsistence expenses for employees (including company directors) who work outside their normal working pattern. Guidance to this can be found at:

http://www.hmrc.gov.uk/manuals/eimanual/EIM05231.htm

Broadly speaking, the daily rates which can be applied are as follows:

Breakfast	£5
One daily meal	£5
Two daily meals	£10
Late evening meal	£15

However there are several conditions attached to these allowances, and care should be taken to understand these conditions before making a claim.

For people working outside of the UK, there are separate rates on a per country basis. At the time of publication, these are being changed, so contact us for guidance if relevant.

Where you stay away from home, a "personal incidental allowance" (PIE) can be claimed, at £5 per night for nights in the UK and £10 per night for nights abroad. However this allowance is intended to cover things such as meals, phone calls home, laundry, newspapers, etc – so if these are claimed in any event then the PIE cannot be claimed as well.

Motoring Costs – Company or Private Owned Cars

There are special rules for taxing company owned cars which are available for private use by directors/employees. These involve a benefit in kind being derived based on the value of the car and the vehicles CO^2 emissions level. A further benefit is charged where fuel is provided for private use.

It is very difficult to argue that any car owned by your company is not available for private use. Even if insured for business use only, if it is parked at or near your home overnight then HMRC will claim it is available for private use. This principle has been unsuccessfully litigated in the past, and is not worth fighting.

These rules generally make it un-cost effective for your company to own your car – it is better for you to own the car and claim for business journeys at tax approved rates.

The tax free mileage rates that can be used are (2010/11):

First 10k miles PA	40p per mile
Over 10k miles PA	25p per mile
Passenger miles (available for each passenger other than driver)	5p per mile

VAT can be recovered on the fuel element of the mileage amount, and HMRC publish a table of the deemed fuel only cost per mile. You must have a VAT receipt for the fuel.

EXPENSE CLAIMS AND ALLOWANCES – continued

The same issues with regard to home to site or business base to site travel apply when considering mileage claims, and an excessive mileage claim may be challenged by HMRC. It is recommended that a mileage log be kept showing for each week total miles, business miles, private miles and details of business journeys.

By contrast where vehicles are in company ownership all running costs are allowed in full for Corporation Tax and VAT – this will include fuel, insurance, repairs and road tax. Capital allowances are available on the purchase price. VAT is not recoverable on purchase of cars by your company but VAT is recoverable, where charged, on vans or motorcycles. The car and private fuel benefits are taxed via your tax code or Self Assessment return at your marginal tax rate. The company also pays 12.8% employers NI (2009/10) on the full amount plus VAT on a similar scale (not listed here).

Garbetts have evaluated the company owned v personal owned car equations for all sizes of vehicles and all mileage levels, and the conclusions are always that a personally owned car with mileage claim is best. The exception to this may be the new generation of ultra low emission cars which have tax privileges – broadly these will have emissions below 110 g/km – please contact us if this is relevant to you.

Where the car is owned personally and mileage is being claimed, then there are no tax or other fiscal consequences of how the personal car is financed – be it by bank loan, finance, personal cash reserves, dividend from company, etc, it is a matter of personal preference. However if the car purchase is to be financed via a company dividend then the tax implications of the dividend need to be held in mind.

Motoring Costs – Company Owned Vans and motorcycles

There are different rules for vans and motorcycles:

Vans - in most circumstances private use is tax free so long as it is incidental. If it is not incidental to the employment of the director/employee, then there is a benefit in kind of £3,000. There will be an additional benefit in kind if fuel is supplied for private use. These rates make a van for private use, other than incidental use, eg stopping at a newsagents on the way home, or an occasional private journey, uneconomic – a mileage claim will be better.

Motorcycles - the benefit is 20% of the market value when first acquired, reduced by the private usage proportion (eg if the motorcycle cost £10,000 and private usage was 15% then the annual benefit would be £10,000 x 20% x 15% = £300 + 15% of the running costs). Optionally for motorcycles and pedal cycles owned personally (rather than company owned) mileage rates can be used tax free as follows:

Motor cycles	24p per mile
Pedal cycles	20p per mile

Where charged vat can normally be recovered on the purchase of a van or motorcycle but will equally need to be paid on its sale.