

Contractor Expenses Guide



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In the busy world of contracting, it may be easy to overlook expenses. All those receipts and mileage logs can seem daunting. But being aware of what expenses you can and can't claim could lower your profits which in turn can increase your take home pay.

Claiming expenses is an important part of any business. HMRC defines expenses as being "expenditure that must be incurred wholly and exclusively for the purpose of the trade, profession or vocation" - sounds pretty straight-forward, doesn't it?

As a contractor there is a big chance you will be contracting through an umbrella company, your own limited company or as a sole trader. Whichever method you choose, it's important to know what specifically you can and can't claim as expenses.

In order to claim your expenses properly, you will need to keep accurate records of everything. Bear in mind that you're legally bound to keep company records for 6 years after their respective financial Year End, and are therefore still liable to incur a possible £3,000 fine during this period.

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Claiming Contractor Expenses

The rule of thumb when claiming for expenses is that you can only claim within HMRC's parameters, which define allowable expenses as being wholly and exclusively incurred in the performance of your duties.

HMRC will allow your claim if you meet these conditions. When there's a dual purpose to your claim it's unlikely to be accepted, because the expense would be needed regardless of the business, for instance, clothes. You might buy a new suit to wear for client meetings but you could also wear the same suit to a meal with friends. This is a dual purpose and won't be accepted by HMRC.

However, if the dual purpose is only incidental because of a business necessity the claim may still be valid, such as protective work clothes or uniforms that could also be used for personal use. In this instance you could claim a proportion of the business expense, if you can reliably measure the business aspect.

Your company's expenses can be paid in two ways, directly from the company account or as a reimbursed expense when paid for out of your own pocket.

Direct from company account

If you make a claim for an expense from the company account, the same rules apply: the expense must be 'wholly and exclusively' for business purposes. It's also easier to claim directly from the company account rather than your personal account. It'll make your bookkeeping a lot easier as you'll know specifically what is personal and what is business expenditure.

Reimbursed expenses

Directors of limited companies are able to refund themselves at any time from the company account, but must keep receipts to justify the expenditure. This expense would then need to be reported in the employee's P11d, which is due in the July following the tax year that the expense was reimbursed.

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Accountancy fees

You can claim for the full cost of your accountancy fee, providing their professional time is being spent working on your company's accounts and not your own personal accounts or personal Self Assessment. If they do provide paid advice or time working on your personal accounts this will be taxable and need to be recorded as a benefit in kind.

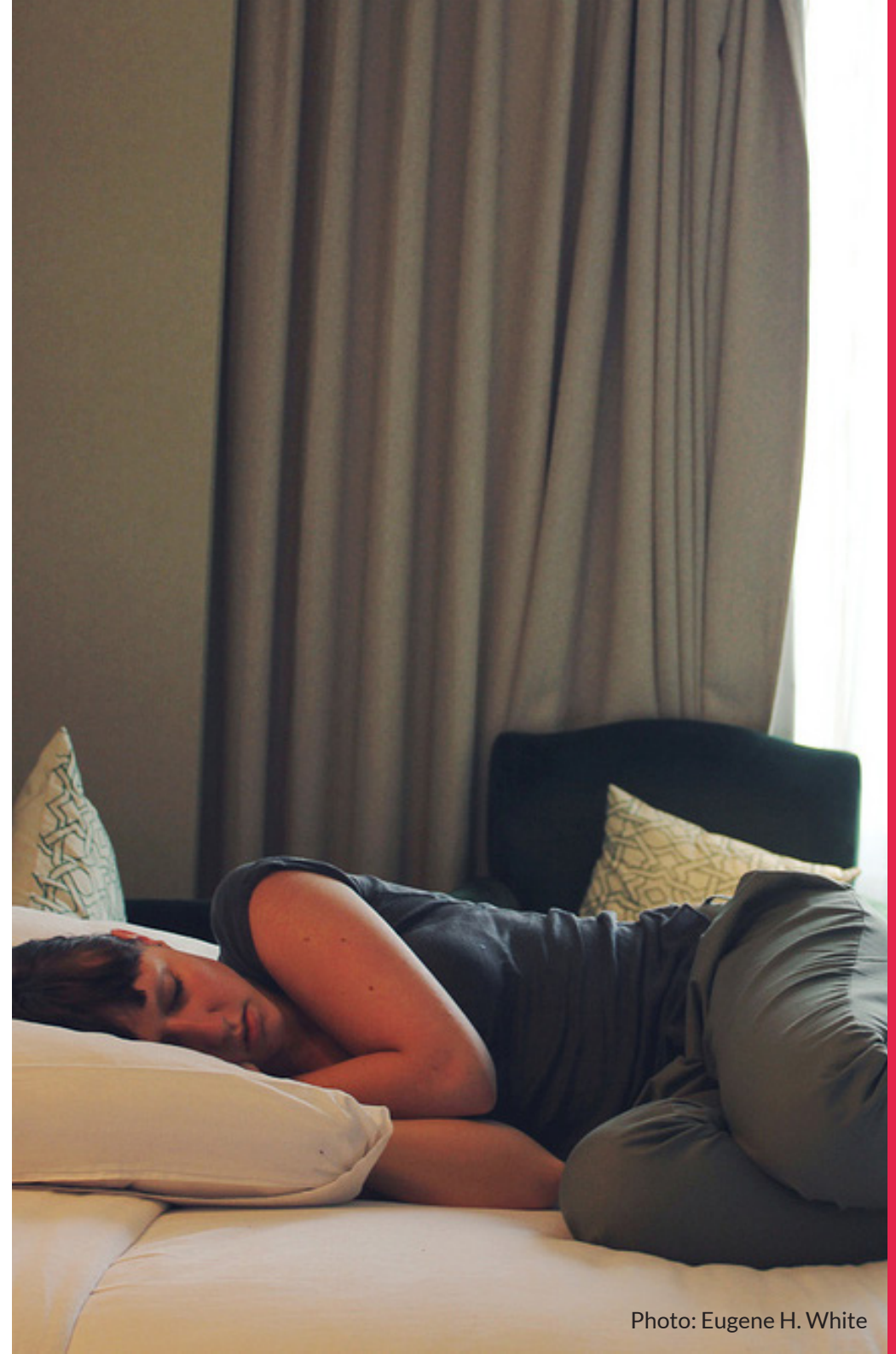
Accommodation whilst on business travel

Full tax relief can be claimed on accommodation used when travelling for business-related purposes, providing the expense is reasonable and not excessive.

HMRC will likely question the necessary need for you to stay at the Ritz... however, this doesn't mean that you have to travel on the breadline.

For contractors the 24 month rule applies. This allows expenses to be claimed for travel from home to a temporary workplace, but only when the contractor believes they will be working at the location for less than 24 months. For example, if you're working on a client's premises for 20 months, you would be able to claim for travel costs for that time period.

Lunch is reclaimable whilst working at a temporary work location at a meal time and if you exceed five working hours. This cover extends to dinner if you are working for ten hours.



Business mileage

If you use your personal vehicle for business travel you can claim the following rates:

Vehicle	Rate Per Mile (On first 10,000 miles in tax year)	Rate Per Mile (On each mile over 10,000 miles)
Cars & Vans	45p	25p
Motorbikes	24p	24p
Bicycle	20p	20p

Planes, trains and ferries can also be covered under business mileage. Contractors can claim for the cost of the ticket, as long as it is for business purposes.

Tolls, congestion charges and parking fees are all allowable expenses. However, parking fines are not able to be claimed as expenses.

Ensure that you keep receipts of everything and a mileage log. Also take into consideration that HMRC are hesitant towards accepting excessive use of taxis.

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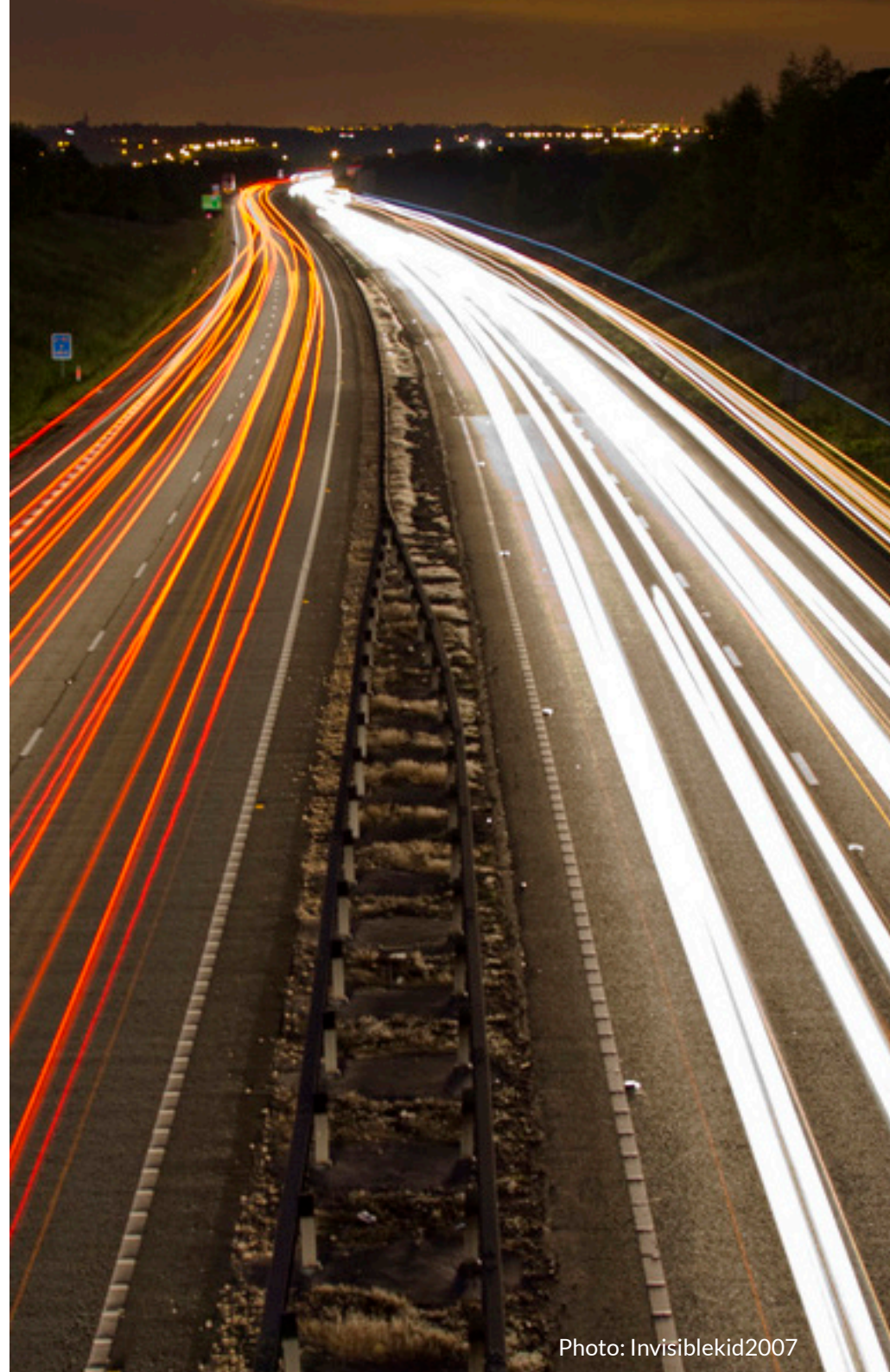




Photo: Nate Grigg

Childcare vouchers

If you fall within the basic rate tax bracket you may be able to supply each employee with up to £243 per month in childcare vouchers, providing the employee meets certain conditions (listed below). For 'higher rate' tax earners you may be able to supply £124 per month. 'Additional rate' tax earners may be able to supply £110 per month.

There are two ways in which you can allocate payment: by direct agreement with a childcare provider, or through a voucher scheme. If you decide to go through a direct channel, you will need a letter between you and the provider confirming the amount you intend on paying.

A child is eligible up to his or her 15th birthday (16th if disabled), providing that the childcare voucher is used for:

- Day Nursery
- Nursery School

- Childminder
- Playgroup / Crèche
- Pre-School
- Holiday scheme
- Qualified nanny / Au pair
- Out of school club
- Holiday Play Scheme

In order to qualify for childcare you or your employer must meet these conditions:

- Must have the child/stepchild living with you.
- Be the one providing the maintenance costs for the child.
- Use a registered carer. You cannot use a relative as a carer unless they run a childcare business and are looking after other children also.

Bear in mind that the Childcare Vouchers scheme is likely to change in Autumn 2015.

Company formation fees

Any necessary preliminary costs to running your company can be claimed back the same as if they were incurred now you're trading. This covers all the relevant expenses, anything from printing to supplying the necessary equipment for your company. Any accountancy fees or mandatory formations costs you paid can also be claimed.

Equipment

The cost of any equipment that is necessary and essential for your duties as a director can be claimed as expenses. This covers computers, printers and software. You may also claim reasonable relief towards the cost of equipping/furnishing an office, e.g. chairs, bookcase.

Eyesight tests & glasses

You can claim for vision tests providing it is necessary for the initial or continued use of visual display equipment in your duties. However, you are unable to claim for glasses as they offer a dual purpose and are not exclusively related to business use, unless they are prescribed during your time at work for visual display.

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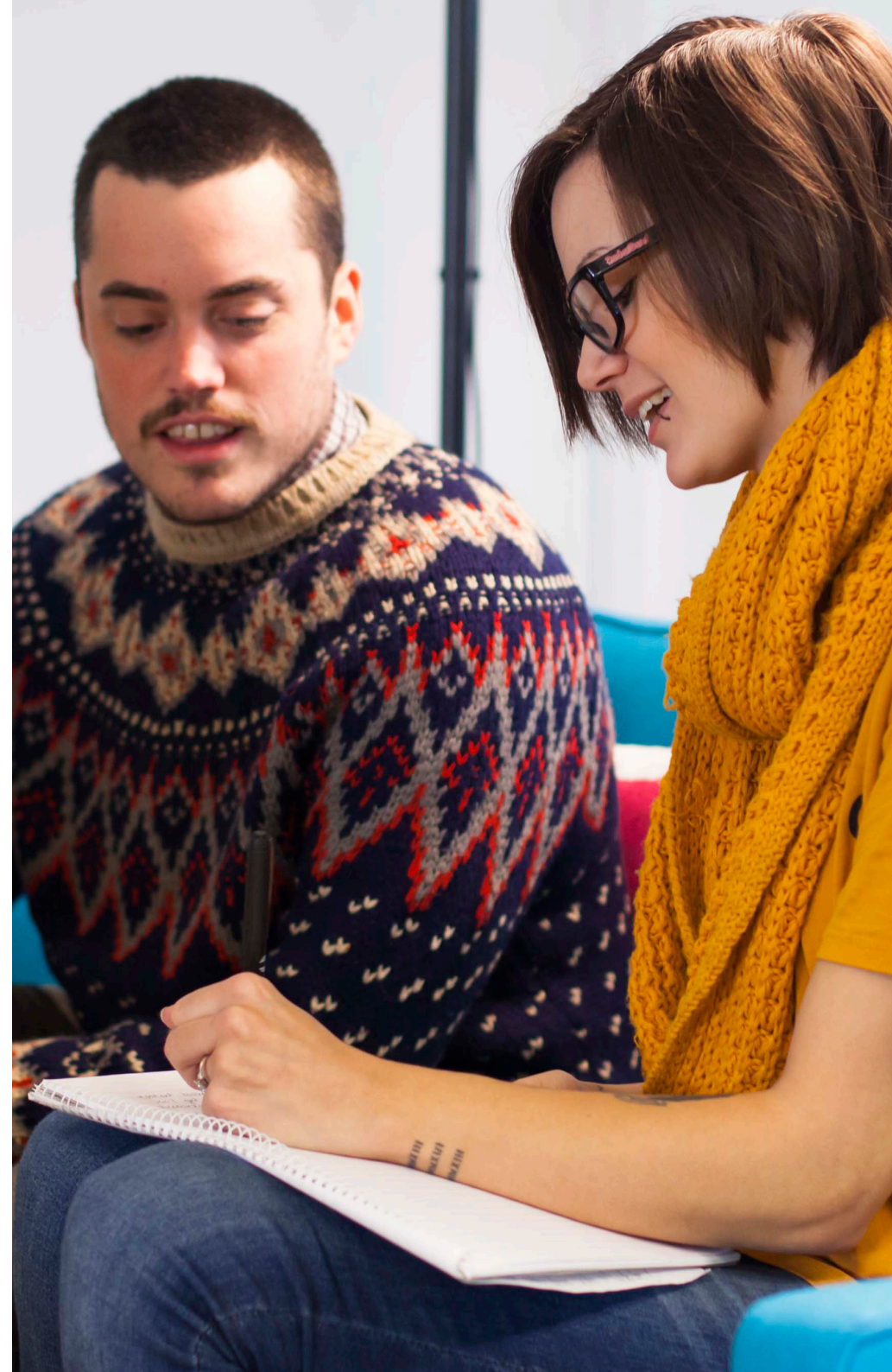




Photo: Julian Wylegly

General office purchases

Minor purchases with receipts that are used wholly, exclusively and necessary in the performance of your duties are claimable. This includes postage, computer consumables and office stationery.

Gifts

A gift to an employee may be treated as a benefit in kind and taxed accordingly, unless it is considered trivial. A gift to someone outside of the company that doesn't consist of food, drink, tobacco or vouchers and is under £50 per annum does qualify for tax relief.

Medical Insurance

Your company may provide financial support towards medical insurance for employees. However, unless it is part of their one free check a year, it will be regarded as a benefit in kind and your company will be liable for National Insurance tax at 13.8%. The individual will be taxed on their Self Assessment at their rate of income tax.

Pensions

A fantastic way to be more tax efficient is through a pension scheme. Once your company has set up a contract with a pension provider it can provide payments to your pension and receive 100% tax relief as an allowable business expense.

There's a tax cap of £40,000 on how much you can contribute to a pension scheme either through your company and personally. Please speak to your financial advisor for more information as they can advise in more detail in this matter.

Professional Insurance

Professional insurance as a contractor is a must have. It can be the difference between going in and out of business should an incident or an accident occur. Professional indemnity, public liability and employer's liability are the main types of insurance you need to consider - check out our guide to find out more.

If you can show that the insurance cover is for business purposes, then you'll be able to claim these as expenses.



Telephones & internet

Your business can provide one mobile phone to each employee for work use and any personal calls do not need to be recorded as benefits. The phone contract has to be between the employer and the phone company - not the individual using the phone.

With regards to the internet, if the rental is set up in the company's name and there is no significant personal use then there are no taxable benefits.

If you are using a home or mobile phone line for both business and personal calls then you cannot claim for line rental.

However, you may claim expenses for the business phone calls used on that line.

Alternatively, you could set up a separate line in the company's name for business purposes only and charge line rental. If personal calls are used on this line the company will incur a 'benefit in kind' and you will be taxed accordingly.

The use of your home as an office

If it is necessary for you to work at home then you are entitled to £4 a week cover without having to report it on your P11D. However, note that when you exceed the prescribed limit, your claim may come under suspicion from HMRC, so only make one if it's absolutely necessary.

When claiming you will need to provide proof of a fully functional and exclusively designated work space, and that you actually use this work space for your business. Because your house is used as both a business and personal space, it's practically impossible to calculate how much gas, electricity and insurance cover your business area consumes.

You have to make a genuine and proportionate estimate with regards to what's actually being used. For example, if you own a four room house and one room is used as an office, divide the number of hours worked in the office by the total number of hours worked in the week, then multiply this by 25% (as the office makes up 25% of total rooms in house). This also assumes each room is the same size.

If you work from home and are the company's only staff member you can claim a proportion of your council tax cost. However, depending on how much you use your home for business, you may have to pay business rates rather than council tax. If you're unsure you should call the Valuation Office Agency (VOA).

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