

Limited Companies - General Expense Guidelines

Introduction

Limited companies operating outside of IR35 legislation can obtain tax relief on their expense costs, provided these costs are wholly and exclusively necessary to the business. Such costs typically include:

Mileage

Travel costs incurred wholly and exclusively necessary in the course of business duties are tax deductible. There is no reimbursement however for home to work costs.

Travelling to and from client sites or temporary workplaces can be claimed but this is subject to the HMRC 24 month rule. HMRC declares that “a workplace is not a temporary workplace if the employee can expect to work there in a continuous period of work lasting 24 months or more.”

Also, HMRC states that “a workplace is not a temporary workplace if the employee can expect to work there in a continuous period of working lasting for all or almost all of the likely duration of the employment.”

Where contractors use their own cars for business travel, they are able to reclaim fuel and running costs at a rate of £0.45p per mile for the first 10,000 miles and £0.25p per mile for all other miles, per tax year.

Motorcyclists can claim £0.24p per mile, and Cyclists £0.20p per mile. Car passengers are able to claim £0.05p per mile. Public transport costs will also be reimbursed but must be supported by receipts.

When submitting claims for business mileage, original VAT receipts (to support petrol/diesel costs) to the value of £13.00 for every 100 miles claimed must be presented with an expense form.

Travel costs

Expense claims can be made against air, train, bus, taxi and sea going travel fares incurred in the course of performing work.

Road tolls, parking costs and congestion charges can also be claimed. It is not permitted to make claims for speeding fines, fixed penalties or parking tickets.

All claims must be supported by original receipts.

Overnight Accommodation / Subsistence Allowances

The cost of being away from home while on business is tax deductible but all costs must be reasonable. Original receipts must be presented to support expense claims.

Note: Expensive claims in respect of hotels (e.g. 5 star accommodation) and meals may be challenged by HMRC and will incur a benefit in kind charge if they are deemed to be unreasonable.

Overnight allowances for incidental expenses are also allowed to be claimed during stays away from home. A £10.00 per night allowance is applicable for overseas stays and £5.00 per night is applicable for all UK stays. No receipts are necessary for overnight allowance claims.

Meal Allowances

Meal costs incurred while working away from a normal place of work are a tax deductible expense. Meal costs must be reasonable and original receipts must be presented to support expense claims.

Daily round sum meal allowances are not applicable.

Home office costs

It may be possible to offset certain expenses when working from a home office base. Examples of such expenses include:

- ▲ Rent and council tax charges applicable to the work area
- ▲ Gas and electricity charges applicable to heat and light the work area
- ▲ Business telephone calls and line rental costs
- ▲ Capital allowance deductions for office equipment

Note: This is an area most likely to be challenged if HMRC investigate a business. Professional advice should be sought before any expense claims are submitted.

Training

Training costs are an allowable expense providing the training course and its contents are wholly applicable to skills required to function and perform duties.

Original receipts must be presented to support training claims.

Safety & Protective Clothing

The cost of safety and protective clothing is an allowable expense providing they are wholly applicable to the environment and the duties being performed.

Original receipts must be presented to support claims for safety and protective clothing.

No claims can be made for conventional items of clothing.

Receipts

As mentioned previously, receipts must be presented with all expenses claims to provide evidence of costs incurred.

For mileage claims, a minimum £13.00 receipt (to support petrol/diesel costs) should be presented for every 100 miles claimed.

Inside IR35

Please refer to the above guidance on mileage, overnight accommodation/subsistence, meal allowances etc. when submitting expense claims.

Notes

VAT

Applications can be made to reclaim VAT on business expenses if the company is registered for VAT and provided that the expenditure was wholly and exclusively necessary to the business.

VAT claims are made quarterly when submitting conventional return paperwork to HMRC.

Note: A limited company cannot generally reclaim any VAT on purchases if it is registered within the Flat Rate VAT scheme. The benefit has already been taken into account when the flat rate percentage was agreed.

Re-chargeable expenses

An expense incurred at the request of the client can be re-charged. Examples of re-chargeable expenses include travel or hotel and meal costs, paid out to attend meetings on behalf of a client.

Limited companies will invoice directly for re-chargeable expenses providing there is a signed client/agency expense form and original receipts to support the claim

Capital Allowances

The purchase of business equipment (e.g. lap top computer) is not classified as a general expense. Business equipment is managed by claiming a capital allowance on the relevant purchase price which is subsequently offset against taxable company profits. Capital allowance rates vary depending on the equipment that is being claimed for.

The purpose of the capital allowance scheme is to allow businesses to recover the full costs of purchased equipment over a defined time period.

Original receipts must be presented to support capital allowance claims.

Benefits in Kind

If an employee/Director of a limited company personally uses an asset belonging to the company (e.g. company car) this will result in a benefit in kind being charged against the employee/Director. Income tax and employees national insurance contributions will be incurred by the employee/Director and the company will accrue employers national insurance costs.

Contractors should carefully consider the tax implications associated with the benefit in kind structure and take professional advice prior to receiving any benefits.

P11D & P9D forms

Limited companies must complete a P11D form for each of their employees earning more than £8,500 per year. It also completes P11D forms for all Directors.

The P11D contains details of all expenses claimed by each employee/Director during the tax year.

A P9D form is completed for all employees who earn less than £8,500 per year.

All completed P11D and P9D forms are presented to HMRC by 06 July each year.