

Guide to claiming expenses through your limited company

Find out what **business expenses** you
can claim tax relief on when working
through your **Limited Company**.



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For limited companies, claiming tax relief on expenses is an important part of your finances and one that directly influences your **profit**. As a result, it's important to know exactly what **can** and **cannot** be claimed with regards to your business.

Whether claiming expenses is new to you, or you just want to go over some of the finer points, our guide will make things **clearer for you**.

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Examples of allowable expenses

By working through a limited company, all of your taxable profits are affected by Corporation Tax.

Corporation tax is payable at 19% from 01/04/17 onwards, and at Budget 2016 the government announced the rate will fall to 18% for the year starting 01/04/2020.

Business expenses and Corporation Tax are linked in relation to tax relief. As you have to pay Corporation Tax on your taxable profits before you can claim a dividend, you are also entitled to a degree of tax relief on the costs of the business.

You'll need to keep detailed and accurate records of all this information in order to ensure that your expenses have been taken care of properly.

Expenses through a limited company

Any expense you claim must be in line with HMRC's guidelines and legislation. Put broadly, this means that all expenses claimed should be **'wholly, exclusively and necessarily'** for your business.

HMRC require that you keep all purchase invoices for 6 years for your business. In the event of an inspection, if you do not have invoices, HMRC will assume the expense is not a valid company expense.

In addition to the costs your company incurs directly through its bank account, you and your employees may claim for expenses that you have incurred on your business's behalf and are reimbursed.

Why is it so important to record expenses properly?

No one is exempt from the scrutiny of HMRC.

If the tax office decides to investigate you, then you must co-operate with them. The chances of being investigated by HMRC may seem very slim when you consider the working population of the UK, however, every time you approve your company's corporate tax return you are stating that everything has been correctly treated.

HMRC regularly conducts reviews on random samples of people and companies, and specific investigations take place based on suspicious behavior.

The bottom line is that you could become the subject of the HMRC's attention at any time. Therefore, it's important to ensure that you have taken care of all your taxes and expenses in the correct and proper fashion.

What you can claim for

Travel and subsistence

There are different aspects to consider when claiming travel and subsistence expenses. Generally you can claim your business travel costs, but not the cost of travelling between home and work. However, special rules can apply in some instances.

Occasionally, you will also be able to claim tax relief on meals that you have bought due to a disruption in your normal work schedule.

For example, if one month you had to go into work at 4am (as opposed to your normal time of 7am), you would be eligible to claim your breakfast as an expense, as this would be deemed as outside of your normal routine.

The 24 month rule

This rule comes into effect when you, or one of your employees, are considered to be travelling to and from a temporary workplace. If you are working on a series of short term contracts at different addresses, these may count as temporary workplaces and if so you can claim tax relief on the cost of commuting and subsistence.

According to HMRC, if an employee “has spent, or is likely to spend 40 per cent or more of his or her working time at that particular workplace over a period that lasts, or is likely to last more than 24 months,” then the workplace is not temporary and travel expenses cannot be claimed.

Each time you (or your employee) claim, you must take into account whether or not you will breach this legislation.

For example, if you have a contract that you expect to last for 18 months, you can claim for travel. If at the end of said contract, you are then offered a 12 month extension, you will be breaking the 24 month rule and will have to stop claiming it at this point (even though it is technically six months before the 24 month time). You can claim for meals whilst at your temporary workplace.

Mileage

Mileage can also be claimed in relation to business trips or any other travel that you have undertaken for the purpose of your role. HMRC set the approved mileage rates which you can view here <https://www.gov.uk/expenses-and-benefits-business-travel-mileage>

The amount you can claim depends on the vehicle you drive. Here is a basic breakdown of the process:

Personal vehicle

Vehicle	Up 10k miles	Over 10k miles*
Cars & vans	45p	25p
Motorbikes	24p	24p
Bicycles	20p	20p

* Each figure is counted per mile in a tax year.

** Rates correct as of 1st Mar 2018

Company car fuel rates

Engine size (cc)	Petrol	LPG
1400 or less	11p	7p
1401 - 2000	14p	9p
over 2000	22p	14p

Engine size (cc)	Diesel
1600 or less	9p
1601 - 2000	11p
Over 2000	13p

If you have a company car or van, you will incur a benefit in kind charge and your company will pay class 1A National Insurance on the charge.

You cannot claim maintenance or repairs in addition to your mileage claim as it is covered in the allowance. 

Boox tip

Dependent on the car and level of mileage, it is often more tax efficient to own the car personally and then claim the **45p mileage** rate rather than have the car tax benefit and claim. However this does depend on your personal circumstances.

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What you can claim for continued...

Other considerations

Other things to consider with regard to travel, it's important that you keep robust mileage records.

1. Where a journey is between places of business, and solely related to your contract, these claims are tax deductible.
2. Journeys between a place of business and somewhere not associated with business are not tax deductible.
3. Journeys between your home (even if it is your trading address) and a place of business are not tax deductible.

Parking & toll fees

Parking fees and toll charges are also allowable business expenses. Speeding, parking or any other form of road-related fines are not allowable for Corporation Tax even if they were incurred during business.

Anything you claim in relation to travel is NOT based on allowances and you must keep all your receipts to prove that the travel is 'wholly, exclusively and necessarily' for business purposes.

Business trips & accommodation

Some Directors or employees may have to go on a business trip as a part of their role. If this applies to you, then you can claim back any travel and accommodation as tax relief.

Clothing

You cannot claim expenses on general clothing that you might wear in your day-to-day life. However, if your clothing has a prominent, non-removable logo, it can be claimed for.

A suit, for example, would not be something that you could claim back, as standard business etiquette requires you to wear one and not your job role.

Any safety equipment, such as boots or protective clothing that are required for your business, can be claimed and are eligible for a tax deduction. However, you must be wary of HMRC's attitude towards dual purpose clothing. According to HMRC, "the fact that particular clothing may be necessary to carry out a particular job does not make the cost of that clothing deductible".

Computers / IT equipment


As long as computer equipment has been 'wholly and exclusively' purchased to aid you in your role, then it can be recorded as a business expense. If it has a useful life of more than a year and is not a nominal cost this should be capitalised as a fixed asset.

Computers, software, printers and other fixed assets of this nature are all eligible for capital allowances.

Training courses and materials

The rules for this for a director/shareholder are different from those that apply to a normal employee. You are able to provide training for your employees and any courses which are relevant to your business can be deducted against your corporate tax. Also, there is no tax impact on your employee(s) for such relief.

If you are a director and shareholder, you can claim for a tax deduction on a course that will keep you up to date within your industry. For example, if you participate in a training course that is aimed at updating a set of skills you already have, then this can be claimed as an expense.

There are special rules when a Director/ Shareholder takes courses which give them new skills. Speak to your accountant for specific advice. 

What you can claim for continued...

Memberships and subscriptions

Your role may require you to be a member of an organisation that is specific to your profession. Likewise, you may also need to subscribe to certain resources to fulfill the expectations of your role.

Tax relief is available on these capital types of professional fees. To claim you must be “registered, obtained a license or have become a member of the organisation in question because it’s necessary to your work”, and that organisation must have been approved by HMRC.

A list of approved organisations is available from here <https://www.gov.uk/expenses-benefits-subscriptions-professional-fees>

Journals and industry magazines

Any journals and industry magazines that are needed for you to carry out your business are eligible for tax relief.

Stationery

Office stationery, computer materials (such as printer paper) and postage items can all be claimed as an expense as long as they are directly for business use.

Eye tests

You can claim for one eyesight test per year per company employee as long as it is necessary with regards to the continued use of any visual display technology that you may use for your job.

Due to the duality of purpose rule, you cannot normally claim Corporation Tax relief on for glasses unless they are prescribed for screen viewing. ➡

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What you can claim for continued...

Telecomms

If you or your employees have a phone that is registered in the name of your business, you can claim corporate tax relief on the entire amount of the bill. This includes personal calls so you do not have to repay the business for calls that do not directly relate to work and there is no personal benefit in kind.

However, if you register a phone in your own name, you can only claim tax relief on the calls you have made for business purposes.

If you have to work from home, you can claim a proportion of the calls as tax deductible but not the line rental. If you need to increase your broadband capacity for business, you can also claim some tax relief on this.

Rent and utilities

You can get tax relief on bills you **have to** pay because you work at home on a regular basis. You can claim the extra costs you incur, but not if you would have incurred them anyway as they are for both private and business use.

If you are **required** to work from home and do not have an office or a dedicated work room set up in your house then you can claim £4 a week towards the costs of rent and utilities (no receipts are needed for this).

If you need to temporarily relocate a member of staff in order to fulfill a business contract, you may be able to claim tax relief on a part of the rent you pay for the accommodation.

Charitable donations

A donation must be to a registered charity for you to be able to claim Corporation Tax relief.

You can claim for a **“reasonable amount that will not turn a profit into a loss”**, according to HMRC.

Relocation allowance


In some circumstances, you (or your employee) may be required to move in order to complete a contract. You may be able to provide a relocation allowance. If you are moving for less than a 2 year period you can claim back some costs.

Up to £8,000 of certain specific expenses can be claimed in order to cover the cost of your move. However, as a place to live is not deemed to be ‘wholly and exclusively’ necessary in business terms (even if you are moving for work), you cannot apply for any more.

Business advertising

Business advertising is also an allowable expense.

- › Newspapers
- › Directories
- › and other forms of hard copy print.

You can also claim Corporation Tax relief for mailshots, free samples and website costs. 

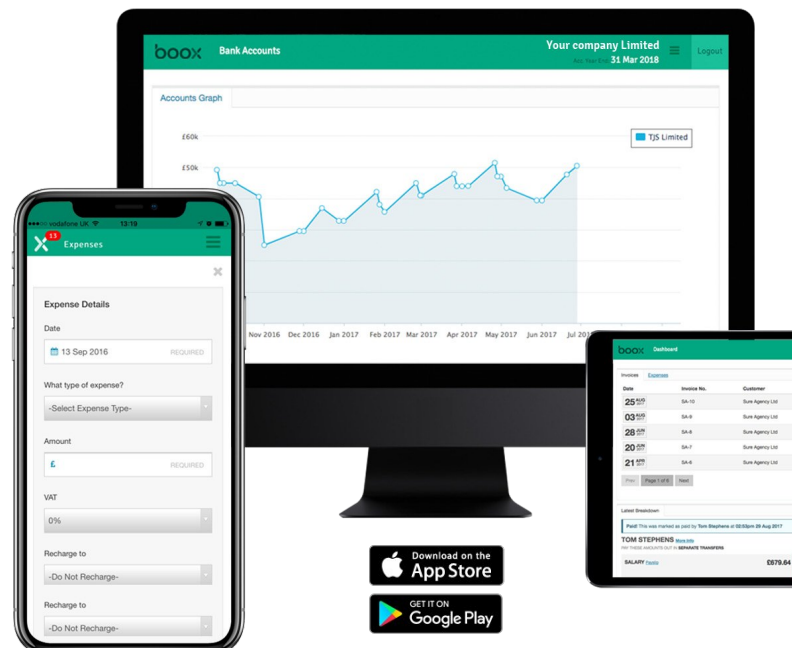
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What you can claim for continued...

Pension contributions

If you have employees, and certain Director contracts, you will need to offer auto enrolment pension schemes. You can either offer the statutory minimum as per the table below, or you can offer enhanced contributions of up to £40,000 per annum.

These are allowable for Corporation Tax and can be a very tax efficient way of extracting money from your company.

Date effective	Employer minimal contributions	Employee contribution	Total minimum contribution
Currently 5th April 2018	1%	1%	2%
6th April 2018 - 5th April 2019	2%	3%	5%
6th April 2019 onwards	3%	5%	8%

Professional fees

Professional fees incurred from companies such as accountants or solicitors are generally available for tax relief if the work done is related to your limited company. However, if the charges relate to capital items, these may not be allowable (depending on the circumstances).

If your company pays an accountant for a self-assessment service then this should be recorded as a benefit in kind linked to that individual and will need to pay Class 1A National Insurance Contributions on the benefits.

Company credit cards

If you have a company credit card, this should be used for business expenses only.

If non-business expenses are charged accidentally to your corporate card, these should be reimbursed to your company.

Any card fees you incur, and any interest charged are allowable expenses of the company.

Bank charges and interest

Bank charges and interest are allowable expenses.

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Other things to consider

There are certain things that limited companies should not claim tax relief on. Each year you will need to submit a corporate tax return for your company. This is prepared on a self-assessment basis, and when you approve it, you are confirming that everything has been treated correctly. HMRC don't accept ignorance as a defense for getting it wrong!

If items are not **“wholly, exclusively and necessarily”** for the purpose of a business, they are not allowable as a deduction from Corporation Tax.

Directors loans from the company

Taking a loan out of your business (i.e. withdrawing money from your business) can potentially be very expensive.

- › If you have a loan over £10,000 at any point in the year, you will have to declare it on your P11D and pay Class 1 National Insurance Contributions on the deemed interest, or reimburse the interest to your company (this would be taxable income of your business).
- › If there is an outstanding Directors loan of any amount at your company's year-end, advance Corporation Tax at 32.5 per cent is payable unless the full amount is repaid within 9 months of the year end.
- › Special 'bed and breakfast' rules apply if you repay and subsequently re-borrow from the company. Advance corporate tax may still be payable depending on the amounts involved and the period between repayment and re-borrowing.

Personal expenses

If costs are not wholly, exclusively and necessary for the running of the business they are not allowable for Corporation Tax relief. These should be reimbursed to the company, recorded as a benefit in kind or as a loan.

Entertaining

Whilst entertaining your clients can be treated as a viable business expense, you may not be able to deduct this when calculating Corporation Tax or claim VAT on the amounts.

Selling capital items

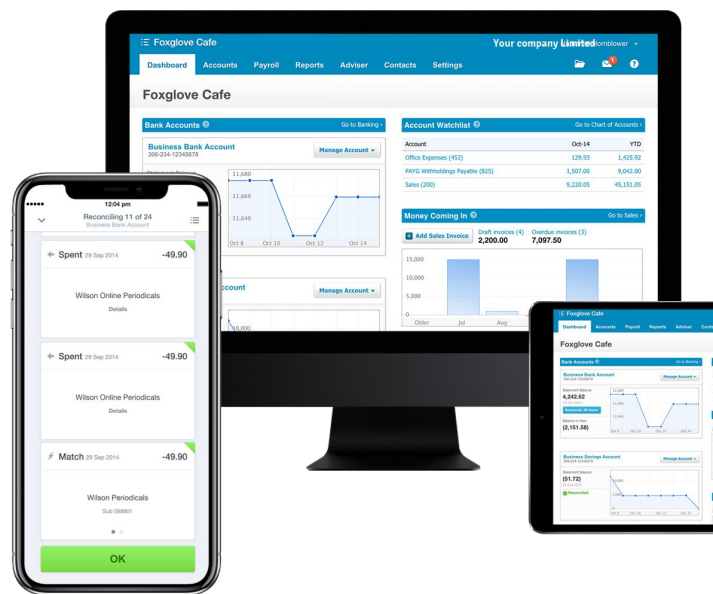
Corporation Tax is payable by your company on chargeable gains that may arise when you sell assets. Assets include:

- › Land and property
- › Equipment and machinery
- › Shares

The amount of the gain depends on what allowances and reliefs are available, and what are the relevant costs.

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