

A Guide to Claiming Business Expenses

Find out what business expenses you can claim for when working through your Limited Company



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For a limited company contractor, claiming expenses is an important part of your working life and one that directly influences your income. As a result, it's important to know exactly what can and cannot be claimed with regards to your business.

Whether you're new to freelancing or just want to go over some of the finer points with regards to what you're eligible to claim back, our guide will make things easier for you.

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A Bit Of Background

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

The amount of corporation tax you have to pay depends on how much you make. HM Revenue and Customs (HMRC) determines this through the following rates:

- **the lower rate - known as the 'small profits' rate - currently set at 20 per cent (up to £1.5m profit)**
- **the upper rate - known as the 'main' rate - currently set at 21 per cent (over £1.5m profit)**

Contractors who operate through a limited company can be both an employee of that company and a director. As a result, you are able to claim some tax relief on certain things that you may have paid for. Essentially, this makes up the basis of an expense claim.

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.

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.

Claiming expenses through a limited company

There are two options available for you to claim expenses with your limited company. Firstly, if you have paid for something with your own money then you can claim a 'reimbursed expense'. There is also the option to pay for something directly from your company's account and claim it back this way.

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 and exclusively' related to items that directly apply to your job role and profession.

HMRC require that you keep any receipts for a business purchase you have claimed in case your finances are investigated. In the event of an inspection, if you do not have receipts, HMRC will assume the expense is not a valid company expense.

Why is it so important to claim properly?

No one is exempt from the scrutiny of HMRC.

If the tax office decides to investigate you then you must co-operate with it. The chances of being investigated by HMRC may seem very slim when you consider the working population of the UK.

However, the organisation regularly conducts searches on random samples of people, with specific investigations taking place based on suspicious behaviour.

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

Boox Tip



We recommend you use your personal funds to pay for business related purchases, although our app allows you to specify the source of the payment when making claims.

What You Can Claim For



Travel And Subsistence

There are different aspects to consider when claiming Travel and Subsistence expenses. The length of a contract must be taken into account, as this can affect what you can claim through your business.



The 24 Month Rule

This rule comes into effect when you are considered to be travelling to and from a temporary workplace. When this is the case, you can claim tax relief.

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, according to HMRC.

Each time you 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 lunches whilst at your temporary workplace. 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.

If you exceed the 24 month rule, or are on a long term or permanent contract, you are able to claim lunch costs from your end client’s workplace canteen. This has to be available to all your company employees.



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.

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

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 Sept 2014

The above only applies if the vehicle is personally owned or leased. Under this legislation company cars do not count.

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

If you have a company car (or the cost of the car’s lease has been put through the company), you are eligible to claim rates between 11p and 17p dependant on the engine size and fuel type.

[See the current rates](#)

Boox Tip



Dependent on the car and level of mileage, as a general rule it tends to be more tax efficient to own the car personally and then claim the 45p mileage rate rather than have the car tax benefit and claim.



Other considerations

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

When you are outside the 24 month rule, you need to be aware of the following:

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

In a recent tax tribunal, it was ruled that Dr Samadian, who worked both privately and for the NHS - could not claim tax relief on mileage to and from places he visited for business because his return trip would take him home - where his office is located.



Parking & Toll Fees

Parking fees and toll charges are also a legitimate business expense. However, speeding, parking or any other form of road-related fine cannot be considered an expense.

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 and exclusively' for business purposes.



Business Trips & Accommodation

Some contractors 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. 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.

However, if it has a prominent, non-removable logo, it can be claimed for.

Any safety equipment, such as boots or protective clothing, and any clothing which has a company logo, can be claimed and are eligible for a tax deduction. However, you must be wary of HMRC's attitude towards dual purpose clothing, known as duality of purpose. It's for this reason you cannot claim for a suit but you can claim for a uniform that you would wear exclusively for work.

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

This can vary in relation to your profession. If, for example, you are a social worker, you may be able to claim a laptop computer as an expense if you need it to carry out your role.

However, if you work in the IT sector, you may need a wider variety of equipment to do your job. As long as you can prove that a piece of equipment has been 'wholly and exclusively' purchased to aid you in your role, then it can be claimed as a legitimate business expense.

Computers, software, printers and other equipment of this nature are all eligible for tax relief.

Boox Tip



If you are Flat Rate VAT registered, and you spend over £2,000 on one invoice, you may be able to claim additional VAT back. Speak to your accountant about this.



Training Courses And Materials

The rules for this for a director/shareholder are different from those that apply to a normal employee. As a limited company contractor, it is likely that you will be both a director and principal shareholder of that company and so certain regulations apply.

As a director/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.

However, if you partake in a course that will give you a new skill, such as a degree, this cannot be taken as an expense, otherwise it will be taxed as additional salary by HMRC.



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.

In order to reduce your tax bill you can claim tax relief on these types of professional fees. You can back date the claim to when you incorporated your company, if you have not already claimed for it on your Self-Assessment tax return (you will need to do one when you become a Limited Company Director). If you have not claimed prior to incorporation, these claims can be backdated several years through your Self-Assessment.

To claim you must be “registered, obtained a licence 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 via the [HMRC website](https://www.hmrc.gov.uk).

Boox Tip

Need help with your Self-Assessment? Contact us to avoid missing the deadline and incurring penalties.



Journals and Industry Magazines

Any journals and industry magazines that are needed for you to carry out your service 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. These small purchases must be necessary and all receipts should be retained in order to prove this.

Be sensible with what you claim in respect to stationery. It is unlikely that HMRC will view stationery that has been purchased in bulk as a necessity for a company that only has one employee.



Eye Tests

You can claim for one eyesight test per year 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 claim for glasses as it is likely you will wear these most of the time outside of work.



Telecomms

If you have a phone that is registered in the name of your business you can claim tax relief on the entire amount of the fee. This includes personal calls so you do not have to repay the business for calls that do not directly relate to work.

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.

What's more, if you have to work from home, you can claim a proportion of the calls but not the line rental itself as tax deductible. In the event that you have to increase your broadband capacity as a result of your business, you can claim some tax relief.



Rent and utilities

If you work from home and have a dedicated space within your house or flat which is set up solely for this reason, then you can claim a proportion of rent and utilities as an expense. This is based on the square footage of your house compared to the square footage of your office room.

In the event that you 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.

Sometimes, a contractor may have to temporarily relocate in order to fulfil a contract. For example, if you live in Cornwall but have been offered a role in London, you may be able to claim tax relief on a part of the rent you pay for your accommodation.



Charitable Donations

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

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

[Find out more here](#)



Relocation Allowance

In some circumstances, you may be required to move in order to complete a contract. You may be able to claim some expenses back as 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.

[Find out more here](#)

Boox Tip



If you claim the relocation allowance you cannot subsequently claim costs under the 24 month rule as the relocation allowance does not apply to temporary workplaces.



Business Advertising

Business advertising is also a claimable expense. According to HMRC this can include advertising in the following mediums:

Newspapers, directories and other forms of hard copy print.

You can also claim for mailshots, free samples and website costs. Some stationary can also be used for advertisement purposes and this can also be claimed as a legitimate business expense.

As well as being claimable, it is also a contributing factor to being outside IR35.

[Click here for more info on IR35](#)



Pension Contributions

You may wish to set up pension contributions to be paid direct from your company account.

For this to be treated as a claimable expense, an approved pension scheme will need to be set up with payments being made direct from the company account to your pension provider.

If you make personal contributions you cannot claim for these through the company as you receive tax relief from income tax.



Professional Fees

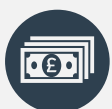
Professional Fees incurred from companies such as Accountants or Solicitors can be claimed for if the work done is related to your limited company.

If you pay an accountant additionally for a self-assessment service then this cannot be claimed as HMRC view this as a personal expense, not something which is business orientated.

Boox Tip



If you're a Boox client, we automatically set up your expense claim for our fees, which are settled by direct debit each month on your business account to collect our fees.



Company Admin Fees

These by definition are a business expense, and are fully tax deductible.

For example, every Limited Company is required to complete an annual return with Companies House once per year. Companies House require payment of £13 to file the return, this amount is fully claimable.



Bank Charges

Each time a bank charge is taken from your account you should expense this accordingly to ensure the correct tax provisions are calculated.



Company Credit Cards

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

You will need to reimburse your company if it is used to purchase any personal expenses.

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

Things not to claim for

There are certain things that limited company contractors should not attempt to claim for in relation to tax relief. This is due to the fact that it could have a negative impact on your tax efficiency, which would cause an adverse to your expenses, tax relief and taxable profits.

What's more, some of the following are not classed as **"wholly and exclusively"** for the purpose of a business and therefore are not recognised as a legitimate expense in the eyes of HMRC.



Company Car

Generally speaking, it's much more tax efficient to claim on your mileage as opposed to the car itself. This because the tax benefits you will receive for a company car are based on the CO2 emissions than the vehicle produces, and this is usually quite high.

If you would like us to go through the decision with you in more detail, let us know the make and model of the car and your anticipated level of business mileage.



Loans from the company

(i.e. withdrawing money from your business): Taking a loan out of your business can potentially be very expensive. If HMRC decides to challenge the loan and reclassify it as salary then you can end up paying national insurance contributions and income tax on the whole amount.

- 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.
- If there is an outstanding Directors Loan of any amount at your company's year-end, advance corporation tax at 25 per cent is payable unless the full amount is repaid within 9 months.
- Special 'bed and breakfast' rules apply if you subsequently re-borrow from the company.



Personal Expenses

This is common sense. If you are trying to claim for an item or service that has nothing to do with your business then it will be rejected by the HMRC.

Boox Tip



In the event that you put personal expenses through your company by mistake, these are treated as if you have taken a loan from the company.



Entertaining

Whilst entertaining your clients can feasibly be treated as a viable business expense, you will not be able to offset any claim against your Corporation Tax obligations.

Find us online



Ready to get started?

For a no obligation discussion about our service, or the best route for your freelance career, get in touch using the details below:



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