

Danbro Personal Umbrella Company Guide to Business Expenses

Introduction

When operating through your own limited company you will incur expenses that are incurred in performing your contract e.g. travel. It will be most likely that these expenses will be made out of your own pocket and will need to be reimbursed from company funds. An expense claim form, detailing each expense, will need to be completed to support this payment to yourself.

Any expenses reimbursed to yourself are reported to HMRC each year via a P11d form and are assessed as to whether or not they would be subject to an income tax charge on you personally. There will not be a tax charge if the expenses are incurred 'wholly, exclusively and necessarily for the purpose of the business'.

The purpose of this guide is twofold; to highlight the most common expenses that can be incurred by your business and to ensure expenses are claimed correctly to avoid any potential personal tax charges.

Travel

You can claim the cost of travel to and from your temporary work place. This would cover public transport, flights, taxi fares and business mileage. Parking and congestion charges may also be allowed but you may not claim for parking or speeding fines.

- **Public Transport, Flights and Taxi fares** – A valid receipt must be obtained to support these claims.
- **Business Mileage** Mileage can be claimed for business related travel including to and from your home to your place of work, the car must be insured for Business use and will be subject to the 24 month rule below.

Current allowance rates:

- Private Car: 40 pence per mile for the first 10,000 miles per tax year, 25 pence per mile thereafter
- Car Passenger: 5 pence per mile
- Motorcycle : 24 pence per mile
- Bicycle : 20 pence per mile

Subsistence

The actual cost of meals can be claimed whilst you are working on a temporary and remote site away from your normal place of work, or when staying away from home overnight. Receipts should be provided to support a claim. There are no set allowances for this claim, but you are expected to ensure that the amount claimed is seen as reasonable. Daily round sum claims for meals are not permitted.

Accommodation

- **Hotel or bed and breakfast accommodation** - can be claimed where you are required to stay overnight near to a temporary client site. Meals taken in conjunction with your stay may also be claimed. Receipts should be provided to support a claim. There are no set allowances for this claim, but you are expected to ensure that the amount claimed is seen as reasonable.
- **Staying with friends and family** – if you have spent money as a result of the stay, you can claim the amount spent e.g. a small thank you gift or contribution to the household bills.
- **Personal Incidental Expenses** – covers the extra costs that you may incur when staying away from home overnight e.g. cost of telephone call to family, morning newspapers, etc. You can only claim the actual amount spent up to the maximum current allowances, which are:-
 - If away from home within UK – up to £5 per night
 - If away from home outside UK – up to £10 per night

Rented Property

In some circumstances, it may be more appropriate to rent a property close to a client site in order to undertake a short term contract, if **and only if** you have another house or flat as your principal place of residence. Please note that living at your parent's house **does not qualify** as your principal place of residence.

This rule **only applies** to contractors with a UK principal place of residence who are working and living temporarily in another part of the UK. It does not apply to an overseas contractor who comes to the UK and rents a property near the client site. That residence becomes their principal place of residence as far HMRC are concerned.

As well as the rent you can claim for council tax and utility bills. You cannot claim for any furnishings for the property; for a short term let it is assumed that the company would lease a fully furnished property.

Note: Travel, Subsistence, Accommodation and Rented Property expenses are all subject to working at a remote temporary workplace. Please refer to appendix 1 Temporary Workplace and the 24 Month Rule.

Equipment and IT costs

The cost of a new pc or laptop can be claimed through your company provided that they are primarily used for business purposes. If there is a significant amount of personal use then a tax charge may arise on you personally.

Similarly the cost of software and computer accessories can also be claimed, as long as it is for use within the business.

Business Telecoms

- **Home and Mobile Telephone** – only the cost of business calls can be claimed. No claim can be made with regard to the line rental.
- **Business Telephone** – where you have a second telephone line for a dedicated business telephone the full cost of the calls and line rental can be claimed.

Professional Subscriptions

You may claim the cost of your annual professional fees and subscriptions on the basis that the activities of the professional body are related to your work.

Clothing

You cannot claim for ordinary clothing e.g. suits, shirts, etc, as these are seen as part of an 'everyday wardrobe' and would not be classed as 'exclusively' for the purpose of the business, even if it is unlikely that you would wear your working clothes outside of work. You are not entitled to claim the cost of dry cleaning these clothes either.

Genuine work wear e.g. protective clothing, or clothing labelled with the company name are acceptable costs of the business.

Publications

You can claim for the cost of reference books, professional journals and magazines provided that they are relevant to your business.

Postage, Stationery and Printing

The cost of postage, stationery and printing costs may be claimed only where full receipts are provided.

Appendix 1 – Temporary Workplace and the 24 Month Rule

It is very important to be aware that when claiming any travel and subsistence expenses, including mileage claims and accommodation, you must be working at a **temporary workplace**.

In defining a temporary workplace you must consider the **24 month rule**, which is an HMRC ruling that states if you have worked, or **expect** to work, at the **same site** for a **continuous period** of more than 24 months then your workplace is classed as permanent. Travel to a permanent worksite is regarded as ordinary commuting and your company would not be expected to pay for these costs.

In practical terms this would mean that as soon as you enter a contract that results in the aggregate duration of your work on a particular site exceeding 24 months, the ruling would apply and you should **stop claiming immediately** for travel and subsistence.

In applying the 24 month rule you would need to consider the key elements...

‘...**Expect to Work**...’ this element refers to the fact that if you enter a contract that would indicate that you would spend more than 24 months at a particular site, or could reasonably assume at some point the duration would exceed 24 months, then the 24 month rule would apply from the start date of that contract.

Example Ms E is a consultant. She works full time at a site for 18 months on a contract to develop a new computer system. The work is extended for another 18 months at the same workplace, for the roll-out of the new computer system. The roll-out is subject to a separate contract with the client. Under the first contract there was no expectation that she would be working more than 24 months at the same site and she would be entitled to claim travel expenses. At the start of the second contract she would expect to be at the same site for a total of 36 months and therefore would be not able to claim any travel expenses under the second contract.

‘...**same site**...’ the rule is applied to the site. Changing client, agency or your own company will not avoid the 24 month rule applying. The same site definition includes similar sites that have no significant difference in journey with regard to length or cost.

Example Ms E is a consultant. She spends 18 months working full time at the headquarters of a merchant bank in Lombard Street in the City of London. After the completion of this contract she secures another contract with a different merchant bank again in Lombard Street, where she expects to work for 22 months. As the clients are based in a similar location her travel from home to work will be broadly the same everyday and she would not be able to claim travel expenses for the second contract, as she would be expected to be working at the same site for a total of 40 months.

‘...**continuous period**...’ this element covers the issue of working over at least two sites during the 24 month period and states that if you spend more than 40% of your working time at the same site exceeding the 24 month limit then the ruling would apply.

Appendix 1 – Temporary Workplace and the 24 Month Rule

Example Ms E is a consultant. She accepts a contract with a client for 23 months of work to develop and roll out a new system based at the same workplace. After 17 months of developing the new system she is unexpectedly requested to deal with a priority task at a different site for 3 months. She then returns to the client's original site for the remaining 6 months of the contract as had been planned from the outset. She is entitled to claim for the first 17 months travel expenses as she did not expect to be at the site for more than 24 months, similarly she could claim for the 3 months travel at the second site. However she would not be able to claim travel expenses for the final 6 months work on the original contract. This is because she would now expect to spend more than 24 months at the same site after she started there ($17+3+6 = 26$ months) and during the period would spend more than 40% of her time there.