

# A TO Z OF COMPANY EXPENSES

## What expenses can you claim for your limited company?

All limited companies are entitled to claim for allowances and expenditure relating to the business as a deduction against business income, thereby reducing the corporation tax liability. To count as a business expense, it must be incurred wholly and exclusively for the purpose of your business.

The rules for employee expenses are even more strict as they must be incurred exclusively for the performance of duties. If you are interested in any tax-saving opportunities as the owner of a limited company, read our A-Z of the most common corporate expenses you can claim for from HM Revenue and Customs (HMRC).

## Accommodation

Hotel and rental costs while staying away from home can be claimed as an expense if it is for the performance of duties.

Accommodation associated with a temporary workplace may also be claimed, provided the length of the contract does not go over 24 months. As complex rules apply, you should check with your accountant before incurring costs to ensure they are allowable and no benefit tax charges arise.

## Accountancy fees

You can claim against fees from the first advice given to you by an accountant before you start. However, there are exceptions including certain tax fees arising from an HMRC enquiry. Directors should note that fees relating to the completion of a self-assessment income tax return is not recognised as an allowable expense and therefore should be paid separately or it is liable to a benefit in kind charge if the company pays for it.

## Air travel

If you recharge this expense to your client, it is important to note that even though air fares do not incur VAT, if your business is registered for VAT, you must charge VAT.

### Annual Investment Allowance

Your limited company can receive tax relief on expenditure on plant and machinery.

## Bad debts

Where unpaid for six months and not a general provision. The VAT charged on the bad debt, where you are not on cash accounting, may be reclaimed provided all reasonable steps have been taken to recover the debt.

## Banking charges

Many types of bank charges can be claimed as an allowable business expense, though they must be for accounts or cards in the name of the business. You cannot claim for charges incurred such as those on an unauthorised overdraft or reimbursing charges to an employee as these would be classed as a benefit in kind to the employee.

### Broadband internet

#### • Business

You can claim if the contract is between the broadband supplier and your company. However, if there is no contract between the supplier and the company, there will be a benefit in kind charge on the full amount of expense claimed.

#### • Personal

If a personal broadband connection already exists and the employee is required to work from home, the expense is not classed as an additional cost and is not allowable. If the employee has to work from home and there is an additional cost, such as installation or upgrading, that cost and the monthly fees are allowable.

## Capital Allowances

This can be claimed on assets and attract 100% relief, high CO2 cars being a notable exception.

## Charitable Donations

This is an allowable expense provided donations are to a registered charity and do not put a business into a loss-making position.

## Clothing

Only tax deductible where the clothing is a specific uniform with either business branding or required for health and safety reasons.

## Computer equipment

Tax relief via capital allowances may be claimed.

## Computer software

Software used in the business, with a life expectancy under two years is deemed to be an allowable business expense.

However, if the expectancy is over two years, it is capital expenditure and should be reflected on the balance sheet as an asset with depreciation charged and capital allowances claimed.

## Cycles

Deduction for bicycles may be claimed under the HMRC Cycle to Work Scheme or through capital allowances where the limited company buys the bike. Also, if using a bicycle for travel then HMRC approved mileage allowance payments are at 20p per mile.

## Equipment hire or rental

If the hire of equipment, such as a photocopier, solely for business use it is an allowable expense.

## Eye tests

There is no benefit in kind charge on the employee where they are required to use a monitor in the performance of their duties. This is also the case for glasses etc. if there is a new prescription required solely for use whilst using the computer.

## Foreign Exchange

### • Corporate

If there is a business element to gift, e.g. a mug with an advert on, it is an allowable expense. However, if it is a general gift without an advertising element, it will be treated in the same way as entertainment. Gifts of food, alcohol and tobacco are not tax deductible. Output VAT is not chargeable on business gifts provided the cost of the gifts does not exceed £50 per person in any 120-month period. Input VAT may be claimed.

### • Staff

A gift of up to £50 per year may be made but one that exceeds £50 is taxable on the employee. There needs to be a minimum of two employees for this relief to apply.

## Hire purchase

Hire Purchase is an agreement to pay for an item with an agreed cost over a period of time. The costs, including interest, are an allowable expense.

## **Home working expenses (use of home as office)**

A round sum allowance of £6 per week may be claimed as an expense from 6th April 2020 (£4 per week before 6th April 2020). This has been deemed adequate to cover the additional costs of working from home without the need for supporting paperwork.

Where the director works from home on a more permanent basis, the amount of additional costs incurred may be claimed.

## **Insurance**

A business that has staff other than its director/shareholder is legally obliged to carry Employer's Liability Professional Indemnity must be in place if specified in a contract by your client.

Other insurances include Public Liability, Tax Investigation, Office Contents, Key Man Jury Service, and for business vehicles owned by the company can be claimed. Other insurances that may be claimed but could attract a benefit in kind charge include Health and Executive Income Protection and Health.

## **Interest on loans**

Interest charged on business loans or other finance payments and on company credit cards or company overdrafts are allowable expenses. Interest on late payments of tax is also allowable but interest on personal credit cards is not.

## **Leasing rental**

There are two types of leasing available: finance lease and operating lease. Both are accounted for in different ways. On a finance lease, the item on lease is written into the balance sheet as an asset with depreciation charged against it. The payments and interest are allowable against business tax.

An operating lease is usually for a shorter term than the life of the asset and is not written onto the balance sheet. The payments are treated as rental and are allowable against business tax.

## **Legal costs**

A business' legal costs are allowable provided they are not incurred for fines, fraud, illegal activities or related to capital items.

## **Magazines and books**

Where the publication is wholly for business use the expense is allowable but may be classed as a benefit in kind. Where a person benefits from them personally or there is an element of self-interest then they are not allowable.

## **Marketing and advertising costs**

Marketing is classed as an allowable expense. Examples include the development costs for a website that performs a function for your business, e.g. customers can buy items from you directly through the website, which

and capitalised on the balance sheet with amortisation charged.

Advertising costs can also be claimed if it is not a capital investment.

## **Medical insurance**

Annual medical check-ups provided to an employee are allowable against business tax and will not incur a benefit in kind charge. Medical insurance paid for by the employer is claimable but a benefit in kind charge will apply. Where the staff member is working abroad, the cost of the insurance to cover treatment is allowable and no benefit in kind charge is applicable.

## **Medical treatment**

Medical treatment is allowable and a benefit in kind charge would not apply whereby the staff member received treatment directly associated to injuries or diseases related to work and is paid directly to the supplier by the employer. Treatment provided while working abroad is allowable and no benefit in kind charge applies. For overseas costs, you must have committed in advance to pay, unless you arrange and pay the provider directly for your employee's treatment or insurance.

## **Mileage**

The approved mileage allowance payments are 45p for a motor vehicle for the first 10,000 business miles reducing to 25p thereafter in a tax year.

Mileage for motorcycles is a fixed rate of 24p for all miles and 20p for bicycles.

When an employee claims approved mileage, see above, for using their own vehicle and they also carry a passenger(s) for business journeys, each additional person in the vehicle can claim 5p per mile.

## **Motor vehicles**

Motor vehicles are classed as a company asset so a capital cost must be reflected on the balance sheet and against which depreciation is charged and capital allowances claimed. Usually these give rise to a benefit in kind.

If the vehicle is a pool car, to avoid a taxable benefit for an employee, it must not be kept at or close to an employee's home. The rules on pool cars can be complicated and result in large tax bills if not dealt with correctly, so you should speak to an accountant.

## **National Insurance**

### **Contributions**

Employee NICs are paid by the staff member from gross salary. Employer's NICs are paid by the employer on top of the gross salary and are tax deductible, as are class 1a NICs paid on benefits in kind. There is an initial Employers allowance which can be claimed upon employing a first member of staff.

### **Parking**

Parking is an allowable expense meaning employees can be

reimbursed for parking near work premises without incurring a benefit in kind charge.

## **Parties**

Office parties are an allowable expense, providing that the event is open to all employees; and the value per attendee does not exceed £150 and they are annual events.

## **Pension contributions**

Company contributions to a company pension scheme is an allowable expense for staff/directors while the company is trading.

Printing, postage and stationery costs

## **Professional fees**

Some professional fees may be deducted for business tax if they are relevant to employee's business duties. A full list of these is available from HMRC.

## **Renting an office**

Office or virtual office rental is an allowable expense. Where business rates are charged, these are also tax deductible.

## **Repairs**

Paying for routine maintenance or repair of an asset is an allowable expense. It is worth bearing in mind that if you obtain an asset that needs repairing to return it to good working order, it will be regarded as part of the cost of the asset and not classed as an allowable expense. However capital allowances could be claimed to possibly produce the same result.

## **Sponsorship**

There are two ways sponsorship can be made: where the business receives something in return and where nothing is received in return. Both are allowed as a business expense.

## **Start-up costs**

The start-up cost associated with incorporating a limited company and setting up of the VAT and PAYE registrations are allowable expenses. However, the formation fee is a capital cost and cannot be claimed.

## **Subsistence**

Subsistence may be claimed when on a business journey or for a staff member who is on a temporary assignment somewhere that is not their permanent place of work, e.g. a contractor. Employers may opt to pay a scale rate to employees. This is not classed as a benefit in kind. However, when there is only one person in a limited company, they should claim the actual receipted cost of the meal rather than a round sum allowance.

Subsistence payments end when it is known that a contract's length will go over 24 months.

## **Telephone**

### **• Landlines**

A landline phone billed to the business is allowable. When a home landline is used for business use the call costs may be claimed.

## • **Mobiles**

Mobile phones provided to staff are allowable against business tax. Provided that the device is only for the employee's use, there is no benefit in kind charge. A phone in the name of the employee cannot be wholly claimed by the business, only the cost of the business calls where separately identified. Business calls made as part of a personal, unlimited minutes bundle, and claimed, are subject to a benefit in kind charge.

## **Training**

Training costs will be an allowable deduction. However, it depends on the type of training as to whether it will be taxable on the employee personally.

## **Travel**

Generally travel costs for business purposes – flights, taxi, Tube, rail, car mileage etc – are an allowable expense. First class or luxury travel could be disallowed if there is evidence that it can be classed as a reward rather than a necessary business expense. Travel between home and a permanent workplace is not an allowable expense. There are other conditions that can affect the deductibility of travel, so always worth checking first.

## **Trivial benefits**

There are several benefits given to an employee which HMRC classes as trivial.

The criteria for what counts as trivial is strict and all the following conditions must be met to apply:

- It cost you £50 or less to provide
- It is not cash or a cash voucher
- It is not a reward for their work or performance
- It is not in the terms of their contract

Where all the criteria above are met, the employer does not need to pay tax or NICs on the expense and are not reportable to HMRC as benefits in kind. However, if the cost of the benefit exceeds £50, the whole amount becomes taxable, not just the amount over £50.

Directors cannot spend more than £300 per annum on themselves on trivial benefits.

## **Wages and salaries**

Wages or salaries and the employer's national insurance contributions are classed as allowable expenses, provided reasonable

### • **Director's wage**

The director should be given at least a minimum salary, but the National Minimum Wage Regulations do not apply unless there is a binding contract of employment.

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