

Expenses Guide for Freelance Contractors

Introduction

This guide aims to explain what you can and cannot claim as a business expense and to answer the questions we are asked most often. Please do call us if you have a query about any aspect of claiming your business expenses.

Getting Started

An expense is claimed 'from' your Limited Company after you have purchased something to carry out your work or - if you pass IR35, to support your business. Each legitimate claim will be 'set against' and reduce your Company's tax bill.

As part of our accounting service, we will supply you with claim forms and bank transaction forms to complete and return every month. If they are dealt with promptly by you it will enable us to provide you with an accurate monthly report informing you what taxes should be paid and when to pay them. The report will also provide other important information.

Submitting Claim Forms to AMS

- You can fax, post or email your completed claims to us.
- You can send claims to us as frequently as you wish, the sooner that you send them, the sooner you can receive tax relief on the claim.

IR35

If you pass IR35 then expenses can be claimed for the running of your business, performing a contract, pursuing a contract, admin etc.

If you fail IR35 then expenses can only be claimed for the performance of your current contract.

Some Do's and Don'ts

Do keep receipts it is a good idea to just have this as a golden rule (the only exception is fuel receipts when you have joined the Flat Rate VAT scheme).

Do retain your accounting records (all your business papers and documents, including receipts) for 6 years.

Do remember to send claims regularly to get the tax relief as soon as possible.

Do record in your claim, what an item is, the actual cost, the date and where you made the purchase.

Do write 'un-receipted' on your claim form against claims where no receipt was obtained.

Do provide us with a copy receipt if you make an expensive purchase (e.g. a laptop) and retain the original for guarantees etc.

Do pay particular attention to rules on claiming for meals, subsistence and staying with family and friends (see Meals & Accommodation)

Don't tick the VAT column for an expense unless you have the VAT receipt to back up the claim.

Don't claim for Clothes (unless essential for your work), Entertainment / Gifts or anything else that is not a genuine business expense.

Don't claim for something you purchased through your business bank account. It would already be dealt with when we process your bank statement information.

Don't break the 24 month rule by claiming expenses if you have worked on a site for more than 24 months (see below).

Don't estimate the costs of your expenses or round up amounts, always enter what you actually spent.

Don't retain receipts for fuel if you have joined the Flat Rate VAT scheme - they are not required while you are registered in the scheme.

What is the 24 Month Rule?

It is a HM Revenue & Customs rule that applies to Travel and Subsistence expenses incurred by employees (including Freelance Contractors) working through a Limited Company. It applies to travel costs, accommodation and meals.

This rule is site related. It states that, if you have worked, or expect to work, at the same site for a 'continuous period' of more than 24 months, then you can no longer claim Travel and Subsistence expenses relating to that site. 'Continuous' means more than 40% of your time during a 24 month period at one site.

You are caught by the 24 Month Rule IF:

- More than 40% of your time during a 24 month period is worked on one site.
- You agree to or sign a contract that means the total duration of your work on a particular site will exceed 24 months.
- You can reasonably assume that you will exceed 24 months at one site - you are caught at the point this becomes apparent.
- You work at other site(s) of similar distance or length of journey, time, or cost (sites near each other) because they would count as one site and the combined time at these sites would count toward the 24 month limit.
- You continue to work at a site for 24 months or more - even if you change your contract, your Agency, your Company or your Customer.
- You were employed at the site before becoming a Freelance Contractor and the combined period is 24 months or more.

Example from HMRC website (the 24 month rule):

A Director of his own Freelancer Contractor Company, Mr S, works as an IT consultant – and his main trading address is his home. He accepts a contract with a client for **23 months** of work. He works full-time on the contract at the client's main site for **17 months**, developing a new system and then, as an unexpected amendment to his original contract, is asked to do some trouble-shooting at a different site for **3 months**. He then returns to the client's original site for a further **6 months** to complete the development of the new system, as had been planned from the outset of the project.

What travel costs can Mr S claim for? A claim for travel costs can be made for the full cost of travel from Mr S's home to the client's site for the first **17 months** and for the **3 months** at the second site, but not for the final **6 months** at the original site.

This is because, for the first **17 months** the client's site is a temporary workplace (because Mr S expects to be there for less than 24 months, and the work there is not likely to last for most, or the whole, of Mr S's employment with his Company). The same applies to the **3 months** at the second site. However, when Mr S returns to the original site, he cannot claim for travel costs for the final **6 months** because he *expects* to be at the original site for more than 40% of his work time over a period of 24 months or longer. (i.e. he expects to still be at the original site more than 24 months after he originally started there, and the percentage of his time there will be more than 40% $((17+6)/(17+3+6) = 88\%)$ of his working time over a period of 24 months or more.)

Accommodation / Property Rentals & Overnight Incidental Expenses (IOE)

Overnight Accommodation

If you stay away from home (your permanent address) overnight in order to undertake a contract, you can claim for the **actual** costs of the accommodation. Such claims should be supported by receipts which you should keep.

IOE (Incidental Overnight Expenses)

You can claim OIE to cover the extra costs you incur when you are away from home (your permanent address) overnight. These items are not necessarily a business expense but items such as toothpaste, telephone calls to your family etc. Receipts are not required.

OIE when staying away from home in the UK. **Up to £5 per night**

OIE when staying away outside the UK. **Up to £10 per night**

Staying with Family and Friends

If you have spent money as a result of your stay, (for example, a meal, a gift or contribution to the household bills), you can claim the **actual cost**. **The limit is £25 per night** and details must be recorded. You should keep receipts if possible. See www.hmrc.gov.uk/manuals/eimanual/eim30073.htm

Rental of Property

Rent, Gas, Electricity, Water Rates and Council Tax can be claimed if you have to rent a property away from home in order to undertake a contract - as long as the contract does not last for more than two years. (See 24 month rule)

? **Shared rental:** If I rent a property either on my own or with some colleagues can I claim for anything?

Yes - as well as your share of the rent you can claim the cost of Gas, Electricity, Water Rates and Council Tax etc.

? **Caravan:** Can I claim for staying in my own caravan on a site?

Yes - you can claim for the costs associated with staying on the site.

Use of Home as an Office – based on guidelines from HM Revenue & Customs

Freelance Contractors who pass IR35 can claim a proportion of their 'fixed living costs' as an expense. £3 per week can be claimed without having to provide the details of the claim. According to HM Revenue & Customs guidelines, you could claim this amount if you work at home for a short period each week. Describe the entry as 'home as office' in your expenses claims. For more information see examples 1 & 3 at, www.hmrc.gov.uk/manuals/bimmanual/BIM47825.htm

If you spend more time than is stated in the situation above, i.e. some contracting work at home or spending significant time on admin, you may be able to claim more than £3 a week. Please do call us and we will calculate how much of the following bills that you can claim for.

- Mortgage / rent
- Light & heat
- Insurance (unless there is a separate business policy)
- Council tax

Clothing

- ? **Protective Clothing:** I need to purchase protective clothing. Can I claim this cost? **Yes** - you should keep a receipt to support the claim.
- ? **Cleaning:** Can I claim the cost of cleaning my overalls? **Yes** - provided that you keep a receipt and you work in conditions that require the clothing.

Entertainment

- ? **Working Lunch:** I paid for a working lunch with a client. Can I make a claim for this? **Partly** - entertainment is not tax deductible and is not claimable but you can claim for your portion of the meal.
- ? **Alcohol:** Can I claim for an alcoholic drink each evening when I am away from home? **Yes** – as long as it is taken with a meal

Equipment & IT

Claiming for equipment

Record the cost on your expenses claim form and attach a **copy** of the receipt. We can then ensure that the VAT element of the cost is reclaimed if appropriate. Please retain the original receipt for insurance or guarantee purposes.

- **Pass IR35** The equipment must be used for the purpose of your business.
- **Fail IR35** The equipment must be used in the performance of your current contract.
- The claim must be for an expensive item (rule of thumb: more than £100). For smaller amounts you should claim it back in full as a small tool or computer stationery etc.
- The claim must be for an item that is not a consumable (e.g. a printer 'toner cartridge' is a consumable item.)

Small tools / Consumables

Small tools and consumable items used up in performing a contract are allowable. The sort of items this covers depends on the type of business concerned, but could include screwdrivers, hammers, protective gloves, ink cartridges etc.

- ? **Software:** I bought some anti-virus software for my P.C. can I claim this? **Pass IR35:** Yes - provided the receipt is kept and you use IT equipment for running your Company.
Fail IR35: No because it is not solely related to your contract.

Financial

- ? **Tax Return:** Can I claim the cost of paying AMS to complete my Tax Return? **No** - this is a personal expense and not a cost to your Company.
- ? **Cash Withdrawals:** While I am working outside the UK it costs me extra for cash withdrawals to pay bills – can I claim these extra foreign currency related charges? **Yes** – only if when personal account is charged. Any charge on your business account will be processed via your 'bank transaction form'.
- ? **Insurance:** Can I claim the cost of buying business insurance with my personal credit card? **Yes** - Employer's Liability, Public Liability and Professional Indemnity insurances are necessary business expenses.
- ? **Currency Exchange:** If I receive receipts in Euros or any other currency do you calculate the rate in sterling? **Yes** – either convert to Sterling in your claim, or we will use the exchange rate in place on the date the claim was incurred.

Meals – also see Accommodation and Overnight Incidental Expenses

If you buy food for a packed lunch and then take it to work, you cannot claim this as an expense. HM Revenue & Customs say that the food costs must be "attributable to the business travel" (this includes your workplace). We have checked with our local office and they say you cannot buy items to make up your lunch during a general grocery shopping trip. The lunch or items that will make up the lunch must be bought on the journey to, or during your day at your temporary workplace.

- ? **Alcohol:** Can I claim for an alcoholic drink each evening when I am away from home? **Yes** – as long as it is taken with a meal

Medical

- ? **Eye Test:** Can I claim for eye tests **Yes**- if you work long hours at a PC monitor.
- ? **Abroad:** Can I claim for treatment after having an accident while working abroad? **Yes** - you can claim for private health treatment if you suffer an injury while you are away on business.

Postage & Stationery

Pass IR35: Allowable if related to your business, ie:

- Relating to a contract
- Seeking new contracts
- Record keeping etc.

Fail IR35: The claim must relate to the performance of a specific contract.

Publications

You can claim for reference books and professional magazines that are relevant to your business. For Freelance Contractors who fail IR35, claims must relate to the performance of a specific contract.

- ? **Map or A-Z:** Can I claim the cost of a map or A to Z book? **Pass IR35:** This depends on the location. For example, you can claim for a map of the area where you will work. **Fail IR35:** Only if you will use them to visit various sites to perform your contract
- ? **Magazines:** I buy a weekly computer magazine can I claim this? **Pass IR35:** Yes - provided that it is relevant to your business and that you keep a receipt. **Fail IR35:** No - this is because it is not specifically related to your contract.

Rechargeable Expenses

Some Freelance Contractors have an agreement with their Agency that certain expenses (incurred in performing their contract) can be invoiced to (i.e. recharged to) the Agency by their Company. If such an agreement exists, then the Agency can be invoiced for the rechargeable expenses.

It is important that you include the cost of any rechargeable expenses on your Expenses Claim Form, otherwise, although your Company will receive payment for the recharged expenses, you will not receive tax relief on the cost of the recharged expenses - and so will pay too much tax.

Subscriptions & Membership Fees

Only work related subscriptions to professional bodies/trade unions etc. are allowable.

- ? **Business Federation Membership:** Can I claim for my membership subscription to the Federation of Small Business? **Pass IR35:** Yes - and you must keep a receipt. **Fail IR35:** No - because it is not solely related to your contract.
- ? **Trade Institution Subscription:** I want to join a Professional Institution can I claim for this? **Pass IR35:** Yes - provided it is supported with a receipt and relates to your business. **Fail IR35:** Yes - but only if it is necessary for you to belong to the organisation in order to carry out your contract. You should keep the receipt.

Subsistence – see Meals and Accommodation and Incidental Overnight Expenses (IOE)

Telephone / Fax / Mobile Phones / Internet

Only business call charges are allowed. Rental charges are not allowed unless the phone line is used solely for business.

Pass IR35: The cost of calling an Agency is always allowed.

Fail IR35: The cost of calling an Agency is allowed if it concerns your current contract.

? **Top-Up Card:** I top up my mobile phone using a Top-Up card - can I claim the cost of my pay as you go?

Yes - if you can provide proof of purchase. Proof can be a credit card receipt, top up voucher or till receipt. You should claim what you consider is the business proportion of the Top-Up cost. (It may be difficult to prove proportions to HM Revenue & Customs in an enquiry).

Training Courses

? **Language Course:** Can I claim for a language course?

Pass IR35: If you are taking it to help you perform a current contract abroad, then yes. If it is to **potentially** help you get future work, then the answer is no.

Fail IR35: If it is a requirement of your current contract that you take the course then you can claim the costs.

? **Training Course:** Can I claim for a training course?

Pass IR35: The claim is allowable provided the course is to update your existing skills. (i.e. not training for a new trade)

Fail IR35: The claim can be allowed if it is necessary for you to take the course in order to perform your current contract. Receipts should be kept.

Travel

Rail fares, air tickets, taxi fares etc.

Pass IR35: Can be claimed if they are business related, subject to the 24 month rule.

Fail IR35: Claims must relate to your current contract.

Stolen/lost Documents:

You can claim for replacement documents e.g. passports lost while working away from home.

Medical:

You can claim for private health treatment if you suffer an injury while you are away on business.

Tax-free business mileage rates:

You can claim tax free mileage rates for driving business miles in your own vehicle. (See 24 month rule).

Applicable to all motor cars and vans: (Motorcycles - 24p per mile; bicycles - 20p per mile)

- For first 10,000 miles - 40p per mile
- After 10,000 miles – 25p per mile

Claiming VAT on your Business Mileage Rates:

If you are **not** registered for the Flat Rate VAT scheme, you can claim VAT on your business miles (as described above). The amount of VAT you can claim per mile depends on your engine size and which fuel you use. The grid below shows how much VAT you can claim per mile. Receipts must be retained. These rates are updated every six months.

VAT per mile that can be claimed, based on Size of Your Engine and Type of Fuel. (from 1/07/09)								
Your Engine size		Petrol	VAT per mile		Diesel	VAT per mile	LPG	VAT per mile
1400 cc or less	→	10p	1.49p		11p	1.64p	7p	1.04p
1401 to 2000 cc	→	14p	2.09p		11p	1.64p	8p	1.19p
Over 2000 cc	→	20p	2.98p		14p	2.09p	12p	1.79p

http://www.hmrc.gov.uk/cars/advisory_fuel_current.htm

- ? **Excess Baggage:** I am going to work abroad and have to take tools and extra clothing with me can I claim the cost of my excess baggage? **Yes** - provided it can be supported by a receipt.

Vehicles

Car Hire

If you hire a car specifically for a contract e.g. when abroad or your car is being repaired, the car hire costs can be claimed together with any additional expenses – petrol etc. which specifically relate to your business travel.

- ? **Van hire to move house:** I am moving house can I claim for Van Hire? **No** – this is considered a personal expense.
- ? **Van hire to work:** Can I claim for van hire to move to a rented accommodation to carry out a 6-month contract? **Yes** - because it is necessary for you to carry out your contract.
- ? **Repairs:** Can I claim for new tyres and repairs to my car? **No** - unless this is a Company car, these costs are already calculated in your mileage allowance.
- ? **Car Purchase:** Can I purchase a car through my Company? **Yes** - although this will create a taxable benefit-in-kind, and in most cases, it is not tax efficient. Please do call us for advice if you are considering purchasing a car through your Company.