



LIMITED COMPANY GUIDE TO BUSINESS EXPENSES

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Introduction

It's no small feat running a business, and keeping track of expenses is one of the biggest challenges. You'll inevitably rack up a long list - from paper clips and pens to rental payments and salaries. As a limited company director, you need to know what expenses you're entitled to claim back and how to include these in your accounts.

When claiming back expenses, any business expenditure which you paid personally can be reimbursed to you by your business as and when you choose. Your company will also receive tax relief for any other business expenses incurred.

This handy guide will help you save money by giving you detailed instructions on exactly what you're entitled to claim as business expenses - and how to go about doing it. You might be surprised to learn about the various business expenses that you never thought you could claim before.

As ever, HMRC rules can be complex and are often based on concepts such as the 'fairness' and 'reasonableness' of expenses claimed. There may also be an impact on the amount of personal tax you pay.

When in doubt, always contact an accountant for advice.



What exactly is tax relief?

Before you're entitled to take a dividend from your company, you must pay Corporation Tax on any profits made. Your allowable business expenses therefore reduce the amount of profit which is liable for Corporation Tax. So, the higher your business expenses, the lower your company profits and tax will be.

To account for your expenses properly, you need to keep accurate records of everything you claim for. Bear in mind you must, by law, keep company records for six years after the end of your company's financial year.



Claiming limited company expenses

Your company's expenses can be paid in two ways, directly from the company bank account or as a 'reimbursed expense' when paid for out of your own pocket.

For expenses reimbursed to you by your company, directors are able to refund themselves at any time from the company's accounts, but must keep receipts to justify the expenses. You can only claim 'allowable expenses' which are 'wholly and exclusively' incurred in the performance of your duties as a director of the company.

When there's a dual purpose to your expenses (ie, there's an element of personal usage) it's unlikely you'll be able to include the expenses in your accounts. However, if the dual purpose is only incidental because of a business necessity, the claim may still be valid, such as protective work clothes or a company uniform which could also be used personally.

Accommodation whilst on business travel

You can claim expenses for accommodation when you travel to a temporary location for business-related purposes, providing the expense is reasonable and not excessive. HMRC will likely question any excessive claims for expensive hotels or apartments with more than one bedroom. So sorry, but the Ritz is probably not going to be acceptable!

Most bookkeeping systems come with a mobile app to simplify recording expenses. Take a picture of your expense receipt and upload it. Easy.

Accountancy fees

You can claim tax relief for the full cost of your company's accountancy fees, providing the accountants' time is being spent working wholly on your company's affairs. If the accountants provide advice or spend time working on your personal affairs (such as preparing your personal tax return) this can be included in your accounts but will be taxable to you personally and needs to be recorded as a 'benefit in kind' (BIK). In addition, your company will pay National Insurance Contributions at 13.8% on the BIK.

Business mileage

Our article "What sort of travel can I claim for as a limited company" gives you all the information you need to understand what you can and can't claim. Your travel expenses are generally deductible where all the following conditions apply:

1. You're responsible for paying the travel costs
2. The travel you're undertaking is necessary to your work, i.e. your attendance at the place you're travelling to is mandatory

3. The travel should not be 'ordinary commuting'. HMRC defines a commute as the journey you make between your home and permanent workplace.

If you use your personal vehicle for business travel to a temporary work location you can claim the following rates:

| Vehicle | Rate Per Mile (On first 10,000 miles in tax year) | Rate Per Mile (On each mile over 10,000 miles) |
|-------------|---|--|
| Cars & Vans | 45p | 25p |
| Motorbikes | 24p | 24p |
| Bicycles | 20p | 20p |

Ensure that you keep receipts for everything and a mileage log. We have a simple business mileage spreadsheet that you can use to log this. Mobile app simplify recording your mileage. The process of claiming by recording mileage, setting recurring mileage and integrating with your bookkeeping software is made easy.

Car, van and travel expenses

You can claim allowable business expenses for:

- vehicle insurance
- repairs and servicing
- fuel
- parking
- hire charges
- vehicle licence fees
- breakdown cover
- train, bus, air and taxi fares

- hotel rooms
- meals on overnight business trips.

You can't claim for:

- non-business driving or travel costs
- fines
- travel between home and work.

Charitable donations

Your limited company pays less Tax if it gives the following to charity:

- money
- equipment or trading stock (items your company makes or sells)
- land, property or shares in another company (shares in your own company don't qualify)
- employees (on secondment)
- sponsorship payments.

You can claim tax relief by deducting the value of your donations from your total business profits before you pay tax.

Childcare costs

Claiming through a Voucher Scheme

From October 2018, no new applicants will be able to join the Government's Childcare Voucher Scheme. However, if an employee is already a member, the company can continue to provide vouchers. You can purchase vouchers through one of the childcare voucher schemes which can be paid to employees. These vouchers can be used to pay a registered provider for

childcare, who can then claim back the fees from the voucher issuer. There is usually a fee of between 2% and 5% which is paid to the voucher provider in order to cover the costs of the admin involved. The vouchers attract full tax relief until the scheme is withdrawn in October 2018. The scheme operates as follows.

If an employee pays tax within the 'basic rate' bracket you may be able to supply the individual with up to £243 per month in childcare vouchers, providing the employee meets certain conditions (listed below). For 'higher rate' taxpayers you may be able to supply £124 per month. 'Additional rate' taxpayers may be able to receive £110 per month.

There are two ways in which you can allocate payment: by direct agreement with a childcare provider, or through a voucher scheme. If you decide to go through a direct channel, you will need a letter between you and the provider confirming the amount you intend paying. A child is eligible up to their 15th birthday (16th if disabled). In order to qualify for childcare you or your employer must meet the subsequent conditions:

- must have the child/stepchild living with you
- be the one providing the maintenance costs for the child
- use a registered carer. You cannot use a relative as a carer unless they run a childcare business and are looking after other children also.

Tax-Free Childcare scheme (new)

In 2017, the Government started to roll out a new Tax-Free Childcare scheme for parents and carers. Read our Tax-Free Childcare article for the full details.

Please note that you cannot provide an employee with childcare using both schemes at the same time, it's one or the other until the voucher scheme is withdrawn in October 2018.

Christmas party and staff events

Your company can host an annual event - most commonly a Christmas party - as a tax-free benefit, providing you meet certain conditions.

Your employees may invite a partner but you must not exceed expenditure of £150 per head (including VAT). The event must cater mostly for staff. For example, expenses for one director and a plus one would be acceptable and would give you a budget of £300.

However, if those attending are not mostly employees then it would be difficult to argue the event's main purpose is to entertain staff. Note that the £150 amount is an annual limit and can cover multiple events for staff.

Company formation fees

The costs associated with setting up your company are business expenses and attract tax relief. This covers all the relevant expenses, anything from printing to supplying the necessary equipment for your company. Any accountancy fees or mandatory formations costs you pay can also be claimed.

Entertainment expenses and gifts

With certain, limited exceptions, expenditure on business entertainment or gifts is not allowable as a deduction against profits, even if it is a genuine expense of your trade or business. Tax relief is therefore not available.

If you've incurred the cost of business entertaining personally you may be able to claim the expense as being incurred in the performance of your duties as a director. These costs would be disallowed in the company profits, so the net effect would be the same as not claiming the expenses in the first place.

Equipment

The cost of anything that's necessary and essential for your duties as a director will receive tax relief. This covers computers, printers and software. You may also claim reasonable relief towards the cost of equipping and furnishing an office, e.g. chairs, bookcases and so on. This may appear to hold a dual purpose, but allowed because it is a consequence of a business need. As long as the personal use is insignificant it will not be treated as a 'benefit in kind' and you won't have to pay personal tax on it.

Eyesight tests and glasses or spectacles

You can claim for vision tests provided it's for the initial or continued use of visual display equipment in your duties. However, you aren't able to claim for glasses or contact lenses unless they're prescribed during your time at work, specifically for 'monitor or screen work'.

General office purchases

Minor purchases with receipts that are used wholly, exclusively and necessarily in the performance of your duties are claimable. This includes postage, computer consumables and office stationery.

Gifts and trivial benefits

You don't have to pay tax on a gift or benefit for your employee if all of the following apply:

- it cost you £50 or less to provide
- it isn't cash or a cash voucher
- it isn't a reward for their work or performance
- it isn't in the terms of their contract

This is known as a 'trivial benefit'. You don't need to pay tax or National Insurance or let HMRC know. You have to pay tax on any gifts or benefits that don't meet all these criteria.

Medical insurance

Your company may provide financial support towards medical insurance for employees. This is regarded as a 'benefit in kind' and the employee must pay personal tax on it. Your company will be liable to National Insurance Contributions at 13.8%.

Your company can provide the following and claim tax relief:

- Medical insurance for an employee working abroad
- An annual check-up.

Pensions

Once your company has set up a contract with a pension provider it can make payments into your pension and receive 100% tax relief as an allowable business expense. There's a limit of £40,000 on how much you

can contribute free of tax to a pension scheme either through your company or personally.

Please speak to your financial advisor for more information as they can advise in more detail on this matter. If you don't have a financial adviser then our Pensions service could help.

Professional subscriptions

Claims to certain HMRC approved professional bodies which are relevant to your employment are allowed. If it is not directly relevant, then it's not allowed.

Salaries

A salary paid to you as an employee or as the director of your company is regarded as an allowable expense, as are any National Insurance Contributions (NICs).

You may pay a tax-efficient salary up to the National Insurance threshold, i.e. before you become liable to start paying NICs. You'll save money by paying a lower monthly salary, because after you cross the NI threshold you'll have to begin paying NICs.

For more information on tax-efficient salary levels see our "End of Tax Year article."

Mobile telephone, landline and broadband

Mobile telephone and landline

If your landline phone contract is only for business use, this is an allowable company expense and you won't be taxed personally. By having a separate phone line for 'only business', it shows this is 100% for business. For mobile phones, provided the contract is between the company and the mobile phone provider, the company can claim all costs as an allowable expense.

If your company pays your entire personal phone bill, you'll have to pay a 'benefit in kind' (BIK) charge on the total amount of the bill, and your company will pay National Insurance Contributions at 13.8% on the same amount (minus the cost of any business calls you can identify).

If you make a claim for the business only calls made on your personal mobile or landline phone bill, this is an allowable expense provided you can prove it was a business call. You can also reclaim the VAT element of the business calls (if you're VAT registered), but you won't be able to reclaim any part of the line rental, as you would incur this cost anyway.

It's increasingly difficult to separate the cost of business calls, given the way mobile (and many landline) phone operators package call costs (e.g. 'up to 2,000 free monthly minutes'). If you can't separate the business element of your personal mobile phone usage, you cannot make a claim, due to the duality of purpose rules, as any business calls you make incur no extra cost on top of the tariff you already pay for personal calls.



Broadband

If you start to carry out some of your work from home, using your residential broadband, you cannot make a claim if the broadband was already in place, unless you can clearly split the business from the personal element. Having two broadband lines could show one line is 100% for business.



The use of your home as an office

Working through a limited company means if you work from home, HMRC allows you to claim £4 each week without keeping any detailed records. The other good news is that HMRC doesn't believe this to be a benefit in kind, which means you won't have any tax to pay on this through your Self Assessment.

As always, there are rules: you must be able to prove that you regularly spend time doing your job in this office space, so you can't just use your home office for a small bit of administration while the majority of your work is done on-site or at client offices.

Equipment that is necessary and essential for your professional duties will receive tax relief. You may also claim reasonable relief towards the cost of equipping/ furnishing an office, (for example chairs or bookcases).

Renting your office to your business

You might be able to rent your personal work space in your home to your limited company and claim that as an expense. You'll need to declare these earnings on your Self-Assessment, so they'll be subject to further taxes after you've deducted your expenses. HMRC requires you to:

- own the property
- classify amounts over £208 per annum as rental expenses
- create a rental agreement between yourself and your company
- ensure that the rental agreement states that the rent is for use of the office at certain times of the day, and nowhere else within your house is used
- make sure the rent you set is reasonable.

HMRC rules are complex in this area and they expect any calculation to be 'fair and reasonable'. You should speak to a your accountant before preparing a rental agreement between you and your company.

Training

You can claim for training that's aimed at improving the skills you apply in your work. Additionally, you can claim travel and accommodation while attending a training course.

HMRC are particularly averse to courses like MBAs, as they offer new skills and knowledge rather than building on existing skills. In certain situations they are allowed, but only if you demonstrate that they are reinforcing/improving your existing knowledge/skills.



Travel & subsistence

If you have to travel for your work you may be able to claim tax relief on the cost or money you've spent on food or overnight expenses. You can claim tax relief for money you've spent on things like:

- public transport costs
- hotel accommodation if you have to stay overnight
- food and drink
- congestion charges and tolls
- parking fees
- business phone calls and printing costs.

You can't claim for travelling to and from work, unless you're travelling to a temporary place of work. See our article "What sort of travel can I claim for as a limited company" for more explanation of the rules about what you can claim and an explanation of how HMRC classify a temporary place of work.

...Phew!



Well that's the end, we hope you found the guide useful, if you have any questions then please get in touch with your client manager, or if you're not yet an Unsquared client, why not speak to our advisors to see how we could help?

You can request a callback at a time that is convenient for you. Go to our website at www.unsquaredaccounting.com to arrange it.