



# A-Z selection of allowable business expenses for contractors and freelancers

There are a wide range of expenses that can be claimed by contractors and freelancers that can help to reduce their business costs. One of the fundamental reasons for operating through a Limited Company is the ability to obtain tax relief (currently 19%) of business expenses.

However, when seeking to reclaim some of these costs as expenses it is important to clearly understand what is and what is not allowable. Furthermore, because an expense is allowable it does not mean that it is always beneficial to claim it as it may be deemed as "Benefit in Kind" (BIK) which would result in a charge to Personal tax at the contractor's marginal rate of tax and also a Class 1A NIC liability (currently 13.8% of the benefit).

It is therefore important to understand what is genuinely allowable and what is advantageous to claim as an expense.

As a basic rule any expense that is claimed must be wholly, exclusively and necessarily incurred for the benefit of the business. At times there may be a duality of purpose in a given expense, for it to be allowable the main reason for the expense must be business motivated and the personal element be incidental to the main purposes.

One must also be aware of the 24-month rule in relation to a Site Based Worker with regards to all travel and subsistence claims (please contact us for further information on the 24 month rule).

To assist you with this we have prepared this A-Z selection of allowable expenses which we hope will help you to make the most of what is on offer.

**Accountancy fees** – except fees relating to personal taxation.

**Accommodation** – reasonable cost whilst staying away from home for business purposes. You must have an available residence elsewhere.

**Accommodation – Rental Property** – the cost should be an economic alternative to a hotel. Allowable costs include utility bills and council tax.

**Advertising & marketing** – most advertising and marketing costs of a business are allowable expenses including literature, business cards and leaflets. Advertisements in print and online, trade shows, as well as networking and meeting fees are also claimable.

**Bad Debts** – allowable expense.

**Bank interest, overdraft charges, credit card charges & PayPal fees** – all banking fees can be claimed as an expense from business accounts, as long as it is separate from a person's personal account.

**Business Gift** – are allowable only where they can be directly related to promotional activity by the company, for example, a mug with the company name and logo printed on it. There is a gift value limit of £50.00 per recipient per year.

**Broadband** – is an allowable expense if the agreement with the broadband supplier is direct to the company.

**Car Hire** – allowable if purely for business purposes (personal benefit may give rise to a Benefit in Kind). No tax free mileage allowance should be claimed.

**Charitable donations** – where they are made to a UK registered charity (cannot cause a loss in the accounts). Receipts should be obtained and retained.

**Clothing** – only allowable if it is specialist clothing that would not be worn in an ordinary day to day environment (e.g. safety boots, helmets, goggles).

**Computer equipment, consumables and software** – computer equipment and supplies for business purposes (not your X box) are normally allowable either as an expensed item or allowed for Capital Allowances depending on the overall value. However, you should ensure that the original purchase is ideally done in the name of the Company and the receipt should be retained. You must also realise that this means the equipment belongs to your Company and if you cease trading shortly after the purchase of the equipment and you retain it personally, you will need to reimburse the Company for the trade value of the equipment, if you don't you would have received a taxable benefit which needs to be declared.

**Director's Salary** – is allowable.

**Entertaining** – of customers or business associates is not allowable.

**Eye Tests** – on an annual basis where required by Health & Safety legislation for employees who are required to use a computer screen or VDU are allowable. Where as a result of such an eye test the employee is given a prescription for glasses or contact lenses the cost of these glasses or lenses are allowable, as long as they are used only for VDU work.

**Gifts** – business gifts to clients are allowable only where they can be directly related to promotional activity by the company for example a mug with the company name and logo printed on it. There is a maximum gift value limit of £50.00 per recipient per year. General gifts with no advertising element and gifts of food, drink, tobacco or vouchers exchangeable for goods are not allowable similar to entertainment.

**Insurance** – any policy that is solely for business purposes can be claimed as an allowable expense. Medical Insurance is not allowable.

**Incidental Overnight Expenses (IOE)** – whilst staying away from home a contractor can claim £5.00 per night in the UK and £10.00 per night if abroad for personal incidental expenses.

**Magazine and books** – are allowable if wholly for business purposes.

**Meals** – see substance on final page.

**Mileage** – mileage payments are allowable if paid according to the following scale:

- For Cars, first 10,000 miles at 45p/mile then 25p/mile.
- For Motorcycles 24p/mile.
- For Bicycles 20p/mile.

This allowance can only be claimed for business mileage and by a site based worker whilst travelling from his home to his accommodation, from his accommodation to his site and between sites, so long as he does not break the 24 month rule.

**Mobile Telephones** – provided by the company for business purposes are an allowable expense (both line rental and call costs). A personally owned mobile is not an allowable expense except for individually identified business calls and records must be kept.

**Motor Vehicles** – any car or van purchased through a company will be classed as a capital asset and is therefore eligible for capital allowances, based on the CO2 emissions. Running costs can also be claimed as long as they are part of the business's operations. However, may be subject to a Benefit in Kind if personal use. Recommend you discuss with your Accountant before any purchase / lease.

**Office Parties** – are an allowable expense it must be an event open to all employees only, (note a second shareholder is not necessarily an employee) and the value per employee does not exceed £150.00 per year, if there are two events say at £75.00 each per employee that's OK but if you have two events say one at £70.00 per employee and the second at £90.00 per employee, then you would only be able to claim the £90.00 and no more, if you had one event at £200.00 per employee you can't claim anything.

**Parking fees, parking fines & speeding tickets** – while parking fees are an allowable expense. Fines and speeding tickets are not allowable expenses, even if the fines were incurred during a business journey. Any admin fees relating to these fines are not allowable either.

**Pension contributions** – by a Company are allowable but there are various factors and circumstances that need to be considered. We advise to consult with an IFA and your Accountants before entering into any contracts.

**Postage & courier costs** – postage or courier costs can be claimed as an expense, as long as they are related to the business.

**Pre-trade expenses** – within a business's first accounting period they can include pre-trade expenses for up to seven years before the business commencing trading.

**Professional subscriptions** – subscriptions to professional bodies can be claimed as an expense if membership gives the person the right to use a qualification and it is related to their business. They must be on the approved list published by HMRC.

**Professional fees** – in most cases accountancy, legal and any other professional fees are allowable expenses, as long as they relate to the operation of a business.

**Printing costs** – are allowable.

**Repairs to business equipment** – are allowable.

**Salaries and Wages to employees together with their associated NI contributions** – are allowable.



**Stationery** – any stationery bought for the business can be claimed as an allowable expense, as long as it is purchased solely for business purposes.

**Subsistence** – may only be claimed when on a business journey or for an employee on a temporary assignment whose place of work is temporary under the 24-month rule. Claims must be for actual expenditure incurred and be reasonable. All claims for subsistence will need to be supported by receipts.

**Taxi fares for business travel** – are allowable.

**Telephone** – treated in a similar way to mobiles as. If the landline is in the company name and for business purposes other than minor personal use then it is allowable. If the line is in a personal name then only calls specifically for business calls is allowable and rental is then not allowable.

**Training & personal development** – courses and training that update existing skills or expertise can be claimed as an allowable expense.

**Travel** – expenses are usually allowable where the travel is for business purposes so long as it does not include commuting between home and your permanent place of work. If the form of travel could be considered lavish, HMRC may question the level of deduction but this has to be considered on a case by case basis looking at the individual circumstances.

**Website costs** – the cost of website building, hosting fees, domain fees and email hosting are all allowable expenses.

**Working from home** – WORKING FROM HOME TAX RELIEF FOR 2021/21 (The Coronavirus year).

In October 2020, HMRC have confirmed that for 2020/21 as a special year because of Coronavirus and people working so much from home that an employee can claim the full £6/week working from home fixed rate relief for the whole year EVEN if they only worked from home for some weeks or part time. That is relief

of £312 which is worth a tax saving of £62/year for a basic rate tax payer and £124/year for a higher rate tax payer.

Normally an employee can only claim the £6/week relief for weeks they have worked at home.

The only qualification is that you were required to work from home at some point in the tax year 2020/21. In future years the rules will go back to claiming only for the recorded weeks worked at home.

#### How to claim the relief

For anyone who does a self-assessment tax return the claim should be made in the tax return. This is the simplest method.

Contractors who submit expenses can put the claim through expenses, as the employer can pay this tax free to the employee. If a contractor has already claimed for some then on the next claim they can top up to the balance of the full £312 relief.

#### Receipts

Receipts are proof that an expense has been incurred and therefore where possible should be retained for a period of at least six years from the end of the tax year to which they relate. We strongly recommend that wherever possible documentary evidence of expenditure incurred is retained.

This guide is only a summary of the expenses that appear to be most relevant to a contractor, however if you wish to review full details and/or legal sources for these rulings please follow the following link for the 145-page unexpurgated version of Booklet 402(2018) Expenses and benefits.

[www.gov.uk/government/publications/480-expenses-and-benefits-a-tax-guide](https://www.gov.uk/government/publications/480-expenses-and-benefits-a-tax-guide)

You can only claim for an allowable expense that you have actually paid for and would if necessary be able to back up with concrete evidence.

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## How Cogent Accountants can help you

At Cogent, we understand the needs of contractors and freelancers and can assist them with the recording and claiming of expenses to ensure they make the most of the money they earn.

This guide is not comprehensive, but is a useful document to help you know what can and cannot be claimed for.

If you would like further advice or assistance with your expenses claims, please contact us.

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