



ACCOUNTS DIRECT

A Gateway to Accounting Solutions

A guide to company expenses

Our address is

37th Floor Canary Wharf
37th Floor
1 Canada Square
Canary Wharf
London
E14 5AA





Our guiding principles

Five guiding principles govern everything we do at Accounts Direct, and along with our accounting experience, our integrity, and our understanding of contractors' needs, we think they're a major factor in our success.

We always put our clients first

At Accounts Direct, our clients are at the very centre of our business. We take the time to get to know you and understand your circumstances so that we can deliver the best service possible, and we love receiving constructive feedback.

We give our staff the room to grow

A well-trained, motivated team will always deliver the best results. That's why we invest heavily in training and developing our people, making sure they have all the skills, knowledge and support they need to serve you as effectively as you would expect. We also make sure they can see a pathway for their own progression. The net result? They're happy, you're happy, and we're happy too.

We can serve you better by working together

A great team is more than the sum of its parts. We make the most of our staff's huge diversity of skills, knowledge experience, using it to benefit all our clients. Working together also means ensuring that you're as engaged with the process as you want to be – and that you've every opportunity to get in touch with us when you need to tell us anything, or find something out.





ACCOUNTS DIRECT

A GATEWAY TO ACCOUNTING SOLUTIONS



We want to be good, and stay good

We're proud to offer an exceptional level of service to our clients, but if we rested on our laurels we'd quickly start to fall short. So to stay at the top of our game we keep our foot on the pedal, keep learning, and take every opportunity to push ourselves just that little bit harder. That means you'll keep getting top-notch service for as long as we work together.

We're in it for the long haul

Our business model is predicated on developing lasting partnerships with our clients. Since we know that the only way to get your loyalty is to earn it, you can trust us to keep your best interests firmly in mind at all times, and to be there whenever you need to talk to us.





Introduction

What are expenses, and why are they important?

“Expenses” is the general term for costs that you incur in the course of your work. The reason that expenses are important is that if you are operating as a Limited Company and you incur an expense in the course of your business, you can claim Tax Relief on that expenditure. That means you can deduct the cost of the expense from your taxable income or your company’s taxable profits, and thereby reduce the amount of tax you need to pay.

As you would imagine, there are many rules about what costs can be put down as expenses. The overriding rule is that to be claimed as an expense, the product or service must “wholly and exclusively” for the use of your business and have no “duality of purpose” – ie, it must be solely for the use of your business, and completely for the use of your business. (‘Incidental’ non-business use is, however, allowed).

How do expenses affect my tax bill?

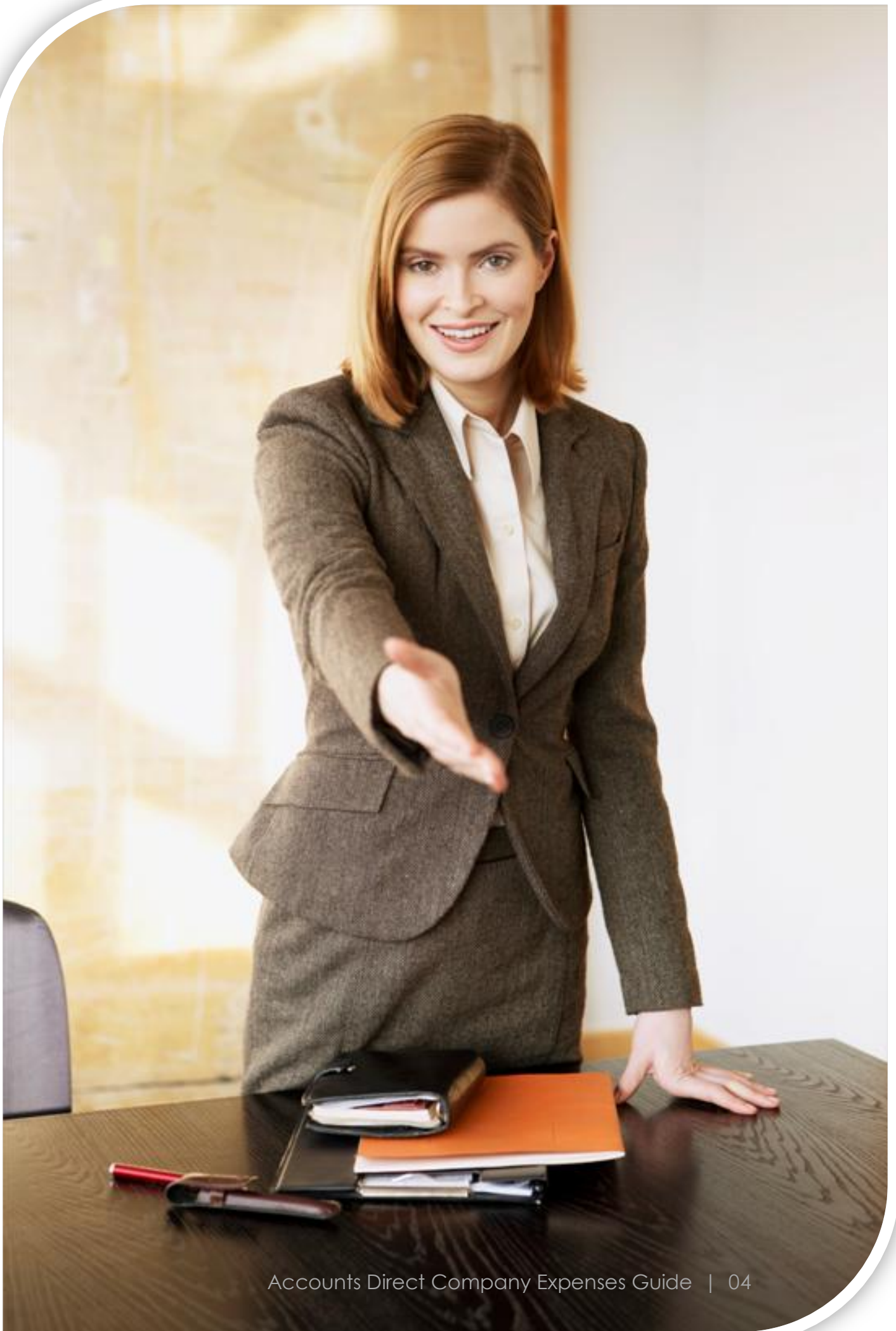
In a nutshell, deductible expenses reduce the total income or profit on which you or your company need to pay tax. For example, if you earned £50,000 in a given year, and did not declare any expenses, you would be liable for tax on the full £50,000.

However, if you had incurred expenses of £1,000 (on travelling for work, say), you could deduct that amount from your taxable income or profit – so you would only pay tax on the remaining £49,000.

Keeping records

It is the responsibility of the company director to keep hold of all receipts relating to expenses. Although your accountant will not need to see these, you would need them if the Inland Revenue ever decided to investigate your accounts. Since an Inland Revenue investigation typically goes back six years, you must retain receipts for six years.







Expenses you can claim for

- Accountancy (all fees including advice prior to company incorporation and accounting software)
- Advertising
- Air fares (with the exception of 1st class)
- Annual company fee
- Bad debts (Debt 6 months unpaid, VAT needs adding back to output tax if not cash accounting or flat rate scheme)
- Bank charges
- Bicycles and related costs
- Broadband internet
- Business gifts (Corporate: Max of £50 in a 12 month period. Food, alcohol and tobacco do not qualify)
- Business start-up (Incorporation fees, VAT, PAYE and CT registration fees, accountancy advice, lawyers advice/contracts drawn up)
- Capital allowances (Depreciation on assets)
- Car hire (Proportionate if there is an element of personal use)
- Childcare vouchers
- Christmas gifts (Need 2 or more employees other than just Director to qualify. Alcohol, food and tobacco do not qualify)
- Charitable donations
- Clothing (Uniform and not used for personal use)
- Computer equipment (Under the net value of £500)
- Company formation fee
- Conference expenses
- Depreciation (On assets above £500 net value, either straight line or reducing balance)
- Director's salary
- Entertainment
- Eye test
- Foreign exchange costs (Costs of converting foreign invoiced revenue back to sterling)
- Health check BUPA and other annual screening check for director or employees
- Hire and rental charges
- Hire purchase (Agreement must be in the company name)
- Home working expenses
- Insurance (Office contents, Employers liability, Executive income protection, Key man life,
- Jury service, Motor, Tax investigation, Permanent & private health, Professional indemnity,
- Public liability)





- Interest on business loans (In company name)
- Key man life insurance
- Leasing rental (In company name)
- Legal costs (Breaches of law and penalty payments are not allowable)
- Magazines and Books
- Marketing costs
- Medical insurance (Foreign contracts only)
- Medical treatment (Only when on business abroad)
- Mileage
- Mobile telephones
- Motor vehicles (Company owned, no improvement costs)
- National insurance contributions (Not class 1a)
- Office rental
- Parking (£5 daily for un-receipted)
- Patent costs
- Pensions provided to employees (Seek professional advice from an independent advisor)
- Postage (No VAT reclaimable)
- Professional fees
- Printing
- Property rental (Apportion where private)
- Repairs to equipment
- Salaries and wages
- Software (Incl. accounting software)
- Sponsorship (Allowable when given freely, no VAT needs to be charged)
- Stationery
- Subsistence
- Taxi fares ('Adequate' fares are allowable)
- Telephone (Proportional if not in the business name)
- Training courses (Must be relevant to the nature of the business)
- Training manuals or books (Allowable when specific to business)
- Travel
- Use of home as office (£3 weekly HMRC approved)

The following sections provide some more information about some of the most common expenses that you will wish to claim to reduce your tax liability.





Director's Salary

Withdrawing the profits from your Limited Company through the right combination of salary and dividends can minimize the amount of money you lose in tax. The value of the Director's salary and the employer's National Insurance contributions due on it are both expenses which reduces the profit chargeable to corporation tax

The right level of director's salary depends on the director's other tax circumstances. For example, the level will be affected if you have received in the same tax year any tax credits, state benefits, earnings from a previous job, state pension, or if you have you made any pension contributions either as an individual or through your Limited Company. Your personal tax allowance is also relevant. As a general rule, Accounts Direct Limited recommends drawing a £7,225 salary (as this is the threshold for paying National Insurance).

Salary of secretary

Some accountants recommend paying someone (often a spouse) to undertake secretarial work on behalf of the company, in order to offset the salary against tax. **Although legal**, the amount you are likely to be able to justify paying (and therefore saving) is likely to be very small, because the amount of secretarial work needed to help a contracting Limited Company is unlikely to exceed more than an hour or two each month. Assuming your secretary is paid at a rate of around £10 per hour, the total annual salary would be just over £100.

Pension contributions

Regards of whether you are inside or outside IR35, pension remains one of the few remaining tax breaks available to contractors. You can either invest personally into a pension fund or have a pension plan through your limited company. By paying pension you save income tax, employers NI and Employees NI. The amount of tax of tax relief can be as much as 48%. That means that out of each £100, you pay 52 and tax man pays 48.

Paying into a company pension is slightly different in that rather than coming from your own funds, the pension contribution would be made on your behalf from your company's funds. These pension contributions





still benefit from tax relief, but rather than gaining Income Tax relief, they attract Corporation Tax relief.

To be entitled to Corporation Tax relief, HMRC states that the contributions must be made wholly, and exclusively, for the purpose of trade. In practice this means that the combined salary and pension that the company employee or company director receives in the year is 'reasonable', and does not cause the company to make a loss.

Insurance

As well as giving you peace of mind, and in some cases a legal requirement, insurance you take out on behalf of your business can also be a tax deductible expense. For example, if you take out a professional indemnity insurance package, or employer's liability package, you can offset the cost of that insurance against your company's total earnings, to reduce the company's Corporation Tax liability.

Charity donations

If your company makes a donation to a charity, the amount of the donation can be offset against company profits and therefore reduce the amount of Corporation Tax the company pays. To qualify, the donation must be made wholly and exclusively for the purpose of trade, and the charity must be aware that the donation is coming from a company. It should be paid from a company bank account.

To qualify for tax relief, the donation should not lead the company to make a loss, there should be no conditions attached to the donation, and neither you, your company, nor anyone to whom you have a connection should benefit from it.

Mobile phones

You can claim one mobile phone as an expense and use it to reduce your tax bill, provided the contract is in the name of the company and the bills are paid from the company's bank account. The cost of the handset, line rental, and charges for both company and private calls all count. However, you can only claim for one phone for private use, and





you cannot claim for a phone provided to a member of your family or household.

Computers and computer equipment

You can claim a computer or laptop as a capital expense and use it to reduce your tax bill providing you need it to conduct your work. The Limited Company will be entitled to 100% Capital Allowance for the cost of the computer. If you make use of the VAT Flat Rate scheme, you can only reclaim VAT on a computer if it costs more than £2,000.

Internet connection

You can also claim for the cost of internet access at your home or company premises. If you wish to claim home access as a company expense, you must demonstrate that there is only one connection and account at the address, that you cannot break the bill down into private and company components, that the extent of private use is incidental compared to company usage, and that the contract is in the company's name and paid from the company's bank account.

Accountancy fees

If you employ an accountant to handle your financial affairs you can claim the fees and any software you use to manage your side of the accounts as an expense.

Using your home as an office

Simple Cost

If you use your house partly as an office for your business, You can claim £3 per week towards the cost of using your home as an office. This adds up to an allowance of £156 per year. No special documentation or receipts are required, and all you need to do is note the expense on your form and HMRC will deduct it from your taxable income.





Apportioned cost

If a contractor has a room or space set aside for doing the contract work from home, then the cost can be apportioned to the business. The following three factors need to be considered when doing the apportionment.

Area of home that is used for business purpose

How much of the home facilities like electricity and gas are used for business

How long is it used for business purpose.

Training

Training costs are treated differently depending on the purpose of the training. All training must be relevant to your work. If the training is designed to further develop or improve skills you already have, the costs can be paid by your company and can be claimed as an expense. If the training is designed to broaden the skills you have (ie, teach you new skills), the cost is treated as capital expenditure and the company can claim Capital Allowances. You can also claim for costs incurred in the course of undertaking training – for example, the cost of travelling to the place where the training is given, and any accommodation costs you incur while training.







Travel

Although the cost of commuting from your home to your normal workplace is not a claimable expense, you can claim travel costs if you are travelling from your home to a temporary workplace or a location other than your usual workplace for work purposes.

The most common travel expenses are mileage allowance payments which can be claimed at the following rates

45p per mile for the first 10,000 miles in any tax year

25p per mile for any miles over 10,000 in any tax year.

24p for using motor cycle

20p for your bike.

If you travel by coach, bus, train, aeroplane in the course of business, you can also claim these as expenses. You should ensure you always retain a receipt for such trips. Although some limited use of taxis is acceptable and claimable as an expense, you should not overuse them.

What is a temporary workplace?

If your contract requires you to work at a location for under two years, and you do not expect to have to work there for any more than two years in total, it will usually be considered a temporary workplace – meaning that you can claim the cost of travelling there as an expense.

For example – if you take on a contract that requires you to work at a location away from your normal workplace for twelve months, the travel costs should be claimable. You could also extend the contract for up any period less than twelve months and still be able to claim for travel expenses. However, if after twelve months you extend the contract for another year or more, the total time you would expect to be at this location would reach or exceed 24 months. In this case, and you would not be able to claim for travel costs incurred after the date you signed the extension contract.

If you work at only one location during the life of your Limited Company, and you then close that Limited Company, you cannot claim for travel





expense. There are also special rules if one contract requires you to work at more than one location and if you work at more than one site within a specific geographical area. Accounts Direct will advise you as to which of your travel costs are claimable as expenses.

Accommodation in hotels and guest houses

The policy regarding Accommodation expenses is similar to the policy for Travel expenses. Hence, while you cannot claim the cost of living at home as an expense, you can claim accommodation expenses if you have to spend time in alternative accommodation such as a hotel or guest house, for example because you are on training or working at a temporary workplace. The cut off is the same, at 24 months.

An alternative to staying in a hotel is to stay in a rented flat, which can often work out more cheaply. You should be able to claim the cost as an expense as long as the cost is reasonable and not higher than the cost of staying in a hotel.

Whichever type of accommodation you use, you can also claim for the cost of your breakfast and evening meals. You can also claim a subsistence allowance of £5 per night (or £10 per night if travelling overseas), to reflect the incidental costs of travelling such as buying newspapers, toiletries and so on.

Lunch and meals

You can claim the cost of a modest lunchtime meal as an expense if you are working at a temporary workplace. You can also claim for refreshment such as a coffee or soft drink, but not alcohol. Only prepared lunches, such as sandwiches or a hot lunch, can be claimed as expenses – for example, packed lunch ingredients would not qualify.

Annual company event

You can claim the cost of one annual company event, usually a Christmas party, as an expense as long as the cost is no more than £150 per head. Note that if you exceed this cost, even by a pound, you will not be able to claim any of the cost of the event as an expense. You must also ensure that all staff you employ are entitled to attend the event, and





note that if the partner of any employee is invited to the event, all employees must be allowed to invite a partner. Invited partners count towards the headcount of the event, so if two employees and two partners attend, the maximum cost for the event will be £600.

Business entertainment

Although you can entertain clients and potential clients at the expense of your company, these costs are not claimable as expenses in any circumstances.

Child care voucher

Contractors and freelancers can claim childcare vouchers through a Limited Company under the Government childcare voucher scheme. Through the Childcare Voucher Scheme employees are able to receive up to £55 per week (£243 per month) in childcare vouchers. These are exempt from tax and National Insurance Contributions, and are available to each parent and legal guardian. The scheme can be accessed by registering through HMRC, or by using a scheme provider who will carry out registration and administration on your behalf.

To take advantage of the Childcare Voucher Scheme, the child must live with the employee. The scheme is available to each parent or legal guardian. The scheme must be offered to all employees, and all must be able to claim expenses. Vouchers cover children up to the age of 15 and can only be used to pay registered and approved child carers such as registered childminders, nurseries, after school clubs, and holiday clubs.

Childcare vouchers cover children up to the first September after their 15th birthday, or, if the child is disabled up to the first September following their 16th birthday. If a relative is the child-carer then they need to be registered and also care for other children who are not related. A Director's Limited Company may pay the childcare directly and deduct it against profits as an expense. In this case, the childcare contract should be between the Limited Company and the child care provider.





Professional subscription

Subscriptions to publications relevant to your company's business, or memberships of professional bodies can both be claimed as expenses.

What if your contract is caught by IR35 regulations?

If the contract you are working on is caught by IR35 regulations, which are designed to ensure that only people who are genuinely self-employed get the tax benefits that being self-employed brings, the rules for expenses are different.

You can claim administrative expenses at 5% of the income from the contract expenses, plus the following, provided you incurred the expenses wholly, necessarily and exclusively in order to fulfil your contract:

- Travel expenses (provided you do not work at the site for more than 24 months)
- Pension contributions
- Subscriptions to organisations and publications relevant to your work
- Professional Indemnity Insurance
- Meals and accommodation you consumed while travelling on business or working away from home
- Internet usage
- Mobile phone requirements
- Postage and Stationery
- Incidental personal expenses such as newspapers you may have bought

Finally, if you work from your own home and can demonstrate that you incur some expenses specifically in the course of your work, you can claim a proportion of the cost of council tax, utilities bills.

You should always record and keep receipts for all business expenses whether or not the contract you are working on is caught by IR35.





Our services

Accounts Direct offers a full accountancy service for contractors and freelancers. If you decide to set yourself up as a small business, we can advise you on the most suitable business structure for you, and get your business set up – within four hours if you apply before midday. We can also:

- Set up your business, registering you at Companies House if necessary
- Complete the necessary taxation registrations (VAT, Corporation, Business)
- Register you for the VAT Flat Rate scheme
- Recommend and open a suitable bank account for you

Regular accounting

We'll keep track of your accounts, and file your returns with HMRC and Companies House. We will:

- Update your accounts with your profits every month
- Organise your quarterly VAT returns and payments, and advise you on the most tax-efficient approach
- Complete and file annual returns for you and your business to HMRC and Companies House
- Assess your tax and National Insurance responsibilities and ensure you pay no more than you need to
- Prepare and file your employer annual returns if necessary





Accounting made easy

Accounts Direct exists to take the headache out of managing your accounts and to ensure you don't pay the tax man a penny more than you need to. You can count on Accounts Direct to:

- Assign a dedicated accountant to you – contactable by phone and email as often as you need them
- Ensure your accounts are always up to date
- Handle correspondence with HMRC, National Statistics Office,
- Take care of administrative matters such as changes of address or other company changes
- Issue board-meeting minutes and vouchers for dividends
- Act as referees when you apply for a visa, mortgage or tenancy agreement
- Liaise with HMRC if they choose to investigate your accounts (as long as Accounts Direct has been handling your accounts and provided you have followed our advice in good faith)

What you need to do

We can do all this on your behalf – all you need to do is ensure we've got the information we need to do it. Just send us copies of the relevant information using our secure online portal and we'll do the rest:

- Ensure we have copies of your invoices and business bank statements
- Submit your monthly expense claims
- Keep in touch with us so we can help you

