

Guidelines for Expenses and Benefits

The purpose of this guide is to advise you on which tax efficient expenses you should think about claiming from your limited company. You can claim for any expenditure you need to assist you in running your business but the exact type and the method by which they are paid can have an impact on both tax and national insurance liabilities. Please take some time to read through this guide and check that you comply with any conditions for any claims that you make.

For expenses to qualify as being tax deductible, they must be incurred *wholly and exclusively* for the purpose of the business. If any expenditure has a *dual purpose*, then generally it will not be tax deductible. However, there is an exception to this rule where the non-business purpose is merely incidental to the business purpose.

Please note that although we can advise you of the current legislation regarding expenses and benefits, **it is your responsibility as a director of your company** to ensure that all expenses submitted are valid and are supported by appropriate receipts. Unless you specifically ask us to, ABM will not check the validity of the expenses you have submitted for processing or indeed whether appropriate receipts have been received. We therefore, cannot accept responsibility for any items disallowed by HMRC at a future date. If, however, in the course of our work we become aware of items which require further explanation we will contact you accordingly.

Although this is a fairly comprehensive list it is not exhaustive! If you are unsure about any other items of expenditure, please get in touch for further advice.

For the purposes of this guide, the term employment refers to your employment with or directorship of your limited company, rather than the relationship between yourself and your end client or agency.



Accounts & Business
Management Ltd

With you every step of the way

1. Travel, Accommodation and Subsistence

When it is necessary to travel to a temporary place of work in order to perform your duties as a director or an employee, you can claim any travel, accommodation and subsistence costs in relation to that journey. It is important though that the workplace in question does indeed satisfy the strict criteria of the meaning of a *temporary workplace*. Any travel to a permanent place of work is deemed to be ordinary commuting and as such the associated costs will not be allowable. Since this is an area which causes a lot of confusion and has also been extensively reviewed by HMRC recently, we have set out below some of the fundamental principles behind the legislation. This is a complicated subject so if you are unsure at all whether your journey(s) satisfy the conditions, then please ask for further guidance.

1.1 Permanent workplace definition

A workplace will be a permanent workplace if it cannot satisfy the conditions of being a temporary workplace. (See section 1.3 below for a definition of a temporary workplace). Your workplace is deemed to be permanent if the attendance is frequent, follows a pattern, or it is the place that you usually attend for all or almost all of the period for which you are likely to hold that employment or office. Even if you attend the workplace on only one or two days a week, if it is on a regular basis, the workplace may still be a permanent workplace. It is possible for an employee/director to have two or more permanent workplaces.

1.2 Travel between workplaces (same employment only)

If you travel from one workplace to another workplace under the same employment/directorship, then the costs associated with the journey are allowable expenses. If, however, you have several permanent workplaces and you only travel from home to each of those workplaces (rather than from one workplace to another) then the costs are not allowable.

1.3 Travel to a temporary workplace

Relief is available for all associated travel costs incurred on journeys to a temporary place of work.

A temporary workplace is a place that you attend in the performance of your duties of your employment or directorship in order to perform a task of **limited duration** or *for some other temporary purpose*.

Limited Duration

- The test is whether you have spent, or are likely to spend, 40% or more of your working time at a particular workplace over a period that lasts, or is likely to last, more than 24 months. If this is the case, then limited duration cannot apply. If at any point **there is an expectation** that the travelling will last more than 24 months and 40% or more of the working time is spent at that place, then it is no longer a temporary workplace.

This rule is modified where there is a succession of workplaces but the change of workplace has no substantial effect on your journey to work. All such workplaces are treated as the same workplace for the purpose of the legislation.

So a succession of contracts for different clients but in the same geographical area may be considered to be at the same workplace and you will not be able to make claims for travel expenses.



Accounts & Business
Management Ltd

With you every step of the way

Temporary Purpose

- If you attend a workplace regularly and perform duties there that are not of a limited duration (above), the workplace will still not be a permanent workplace provided that the purpose of *each visit* is temporary. Where a visit is self-contained (that is, arranged for a particular reason rather than as part of a series of visits to the same workplace for the continuation of a particular task) it is likely to be for a temporary purpose.

For Example: -

If you regularly visit a client site to carry out tasks of a temporary nature (e.g. overhaul a pump, hold an ad hoc project review meeting etc) then the travel expenses would be allowable.

If you regularly attend a client site for work of an ongoing nature (e.g. as part of an on-site team on an extended project) then your work place would be deemed to be permanent so travel expenses would not be allowable.

If a workplace is capable of being a temporary workplace by reference to all of the above, then you also need to consider the following overriding rules:

Fixed Term Appointment Rule

- A workplace is not a temporary workplace if you can expect to work there for a continuous period lasting for *all or almost all* of the likely duration of your employment/directorship, even if your employment/directorship lasts less than 24 months. For directors of limited companies falling outside of IR35, you need to remember that for the purposes of this rule, the employment is between yourself and your limited company, rather than yourself and the end client. (It is generally accepted that the term “almost all” amounts to 80% or more)

Depots and Bases Rule

- Where you regularly attend a workplace because it is the base from where you work, or, it is the place at which you are routinely allocated tasks, then the workplace is deemed to be a permanent workplace and not a temporary workplace.

Areas Rule

- If you do not have a single site as a permanent workplace but instead have an employment for which your duties are defined by a particular geographical area, then the whole of the geographical area is treated as your permanent workplace.

Other Considerations

- Where travel to a temporary workplace is broadly similar to your travel to your permanent workplace, the travel to the temporary workplace is treated as not being business travel.
- A journey between your home and a permanent workplace is ordinary commuting even when you do some of your work at home and even if you are entitled to claim home working expenses (see 9). If, however, you can establish that you are travelling from a workplace rather than from your home then the journey would be allowable as travel between workplaces. This is particularly difficult to prove though if you only work from home for some of the time. Note that the meaning of workplace is indeed a place of work and not simply the company's registered office address.

1.4 Umbrella Companies and Personal Service Companies (caught by IR35)

The rules for claiming travel and subsistence expenses for Umbrella Companies (where supervision, direction and control exists) and for Personal Service Companies caught by IR35 have changed. From April 2016 every contract is deemed to be located at a permanent workplace, therefore travel



Accounts & Business
Management Ltd

With you every step of the way

to and from home to that workplace is ordinary commuting and no travel and subsistence costs are allowable.

Please note that the rest of the guidance refers to the terms “business travel” or “business journey”. These terms are used to refer to journeys which qualify as either travel between workplaces or travel to a temporary place of work.

1.5 Accommodation

The cost of qualifying business travel includes any accommodation costs attributable to that travel. So where it is necessary to stay in accommodation because you are working at a temporary workplace then the cost of the accommodation is also an allowable expense.

In many cases furnished or unfurnished rented accommodation may be a cheaper and a more convenient alternative to hotel accommodation. Provided that the total cost of the accommodation is appropriate to the business need and is reasonable and not excessive then the expense will be allowable. The total cost may include the reasonable cost of furniture if required. The cost is not deemed to be reasonable where the total cost of providing accommodation exceeds the cost of hotel accommodation of an appropriate standard. If you are staying in rented accommodation, then a permanent residence must be being maintained elsewhere within the UK and a regular pattern of commuting back to that residence must be evident.

If accommodation is supplied in part because you are accompanied by your family, or the location of the accommodation is determined by reasons of non-business convenience and there is an increase in costs as a result, then you will not be able to claim the full costs incurred. Also, it cannot be assumed that accommodation of a similar standard to the employee’s home will always be reasonable.

If you have no permanent home and simply stay in guest houses wherever you happen to be working, then the cost of the accommodation (and associated subsistence costs) are not allowable expenses.

1.6 Subsistence

The cost of qualifying business travel includes subsistence costs *attributable to and incurred during the journey* in question. Similarly, where an overnight stay is required, the cost of the accommodation is part of the cost of the qualifying business travel (see 1.5). Even if you stay away for some time, the cost of meals and accommodation are part of the overall cost of the qualifying business travel.

However, an expense is only allowable for subsistence costs incurred in the course of the journey which are additional to any costs that you would ordinarily incur if you were not travelling on business. For example, a deduction would be allowed for the cost of a sandwich purchased at a service station whilst travelling on business but not for the cost of a sandwich prepared at home and consumed whilst travelling as this is not deemed to be a cost incurred in the course of the journey.

If you are staying in rented accommodation and are preparing your own meals, there is deemed to be no additional cost to you than if you were at home and so no subsistence expenses or allowances are available. However, if you are staying in rented accommodation and choose to eat out every night then that cost would be allowable. *Please note that this is a change to our previous guidance where you could claim for the cost of one meal per day provided you submitted a supermarket receipt clearly highlighting the specific ingredients used to prepare that meal. Our guidance has been changed due to the specific comments made in the recent Tim Healy case for such a claim. (Tim Healy v HMRC TC04425)*



Accounts & Business
Management Ltd

With you every step of the way

If you have no permanent home and simply stay in guest houses wherever you happen to be working, then the cost of the accommodation and associated subsistence costs are not allowable expenses.

Receipts are required to support all subsistence costs unless you are using the benchmark scale rates (see below).

1.6.1 Benchmark Scale Rates

From 6th April 2016 you do not need a dispensation in place to make use of the HMRC approved scale rates. These are approved flat rates that you can claim instead of claiming the actual cost of the subsistence element of your travel expenditure. They are set as the maximum amount without having to agree a rate with HMRC.

Either:

One meal allowance per day paid in respect of one instance of qualifying travel, the amount of which does not exceed:

- (a) £5 where the duration of the qualifying travel in that day is 5 hours or more;
- (b) £10 where the duration of the qualifying travel in that day is 10 hours or more; or
- (c) £25 where the duration of the qualifying travel in that day is 15 hours or more and is on-going at 8pm

or

- An additional meal allowance not exceeding £10 per day where a meal allowance in (a) or (b) is paid and the qualifying travel in respect of which that allowance is paid is on-going at 8pm

Overnight subsistence rate - A benchmark rate has not been set for overnight subsistence.

There are no benchmark scale rates for accommodation expenses and so claims are only valid with a supporting receipt.

1.7 Use of own vehicle

If you use your own vehicle to make the qualifying business journey, then you may claim the cost per mile for the business journey. A VAT receipt to match or exceed the number of miles claimed should be submitted with every claim, unless of course you are using a bicycle.

Cars	45p per mile for the first 10,000 miles p.a.	25p per mile thereafter
Motorcycles	24p per mile	
Cycles	20p per mile	

Where you use your own vehicle in the course of more than one employment/directorship during a single tax year, each employment/directorship is treated separately (so each has its own 10,000-mile higher rate limit). This rule is modified, however, if the employments are associated.

1.8 Travel cards

If you own a travel card which you are able to use for both qualifying business journeys and private journeys as well, this can present a problem in determining whether the cost of the travel card is an allowable expense. Whether or not the expense is allowable in full or only in part depends on whether you can identify an amount which is attributable to travel to the qualifying business journey.



**Accounts & Business
Management Ltd**

With you every step of the way

However, with Oyster cards it is in fact possible to claim for private travel as well, so long as the total cost of the card can be shown to be equivalent to the standard cost of all the qualifying business journeys.

1.9 Use of hire cars

The cost of a short term hire car and the fuel costs to make the qualifying business journey are allowable. However, if the hire car is available for private journeys, then please refer to section 16 on car benefit rules.

1.10 Rail or air travel

The costs of train or air fares for qualifying business journeys as defined above are allowable expenses.

1.11 Offshore

Travelling facilities between mainland and offshore oil or gas rigs or platforms are not classed as a taxable benefit and so any costs you may incur for these are allowable. Where the timing of transport between the mainland and the rig make it necessary for you to take overnight accommodation near to the mainland departure point, that accommodation cost and any related subsistence costs are also allowable. Travel costs from home to the departure point are only allowable if they fall within the normal rules of travelling to a temporary workplace.

1.12 Other travel costs

Allowable travel costs include bridge, tunnel and road tolls, bus and taxi fares and car parking charges, provided that these have been incurred during the qualifying business journey.

1.13 Scale of expenditure

The actual cost of qualifying business travel will not normally be relevant as to whether the expenses are allowable. For example, first class travel would not be disallowed on the grounds that only standard class was necessary for the journey. Where travel arrangements are unusually lavish though full relief may not be given since part of the expenditure may be deemed to be some kind of reward.

1.14 PIE (personal incidental expenses)

Some expenditure that you may incur while making a qualifying business journey may be of a personal nature and is therefore not deductible in its own right. This will include, for example, private telephone calls, newspapers and laundry. However, there is a specific statutory exemption for allowances paid to meet these expenses.

The maximum amounts of incidental overnight expenses that you may claim for as being tax free are

- £5 per night for overnight stays in the UK
- £10 per night for overnight stays outside the UK.

If a payment is made that exceeds these limits, the whole of the payment becomes taxable and not just the excess.



Accounts & Business
Management Ltd

With you every step of the way

2. Business entertainment

Entertainment is business-related if its purpose is to discuss a particular business project, maintain an existing business connection or form a new business connection. Entertainment of business acquaintances won't count as business related if its purpose is really social – even if there's some discussion of business topics in the course of the entertainment. In such cases tax and national insurance may need to be paid.

3. Employee/director entertainment

An annual party at Christmas or an alternative annual function of a similar nature which is open to all employees and which costs no more than £150 per head to provide are not taxable benefits. This still applies if there are other attendees at the party or function.

4. Mobile telephones

4.1 Contract and Invoices are in your Company Name

If the contract with the mobile phone provider is in the name of your company, then the full cost of your mobile phone together with any monthly bills is allowable with no income tax or national insurance liability arising.

4.2 Contract and Invoices are in your Own Name

If the contract is in your own name rather than the company's, you can be reimbursed by your company the cost of *separately identifiable business calls only* without attracting any income tax or national insurance liability.

4.3 In Your Own Name with Full Reimbursement

If the contract is in your own name rather than the company's, and the company pays it in full either directly or by reimbursing you, then the costs must be added to your wages and taxed as income accordingly.

5. Home telephones

If you use your home telephone to make business calls, then the cost of the *separately identifiable calls* can be reimbursed by your company. Please note that if you were claiming homeworking costs then this would already be included in the flat allowance method (9.1) and cannot be claimed in addition to it.

6. Trivial Benefits

From 6th April 2016 no liability to income tax arises in respect of a benefit provided by an employer if conditions A to D are met

- A the benefit is not cash or a cash voucher
- B the cost of providing the benefit does not exceed £50
- C the benefit is not provided under salary sacrifice arrangements or any other contractual obligation
- D the benefit is not provided in recognition of particular services



Accounts & Business
Management Ltd

With you every step of the way

When the employer is a close company then condition E must also be met

E the benefit cost provided to the employee/director does not exceed the employee's/director's available exempt amount. (typically £300)

7. Relevant Life Policies

The rules for relevant life policies are different to other insurance policies. With a relevant life policy your company can pay for the plan and there is no taxable benefit arising. If you need any advice regarding relevant life policies or indeed any other kind of insurance policies or investment advice, then please contact an independent financial advisor.

8. Assets placed at the disposal of an employee/director

If your company purchases any assets which are used by you purely for business purposes, then there is no liability to income tax or national insurance.

If your company purchases any assets which are used by you for business purposes but there is also *significant private use*, then this will generate a benefit and a Class 1A national insurance liability for your company. This might include, for example, a computer or a laptop.

9. Home working – household bills

9.1 Flat Allowance

When *it is necessary* for you to work from home for some or all of the time, you may incur additional household costs, for example in heating and lighting. Your company may make payments to you tax free and without any liability for national insurance contributions to meet those additional costs. From 6th April 2012 your company can pay up to £4 per week (£208 per year) without obtaining any supporting evidence of the additional costs.

9.2 Actual Costs

Your company can pay more than the flat allowance where evidence is retained to show that the amount paid is no greater than the additional costs incurred by you.

10. Protective clothing and uniforms

The cost of the upkeep, repair and replacement of protective clothing and uniforms is allowable where the employee's/director's duties require such items to be worn. Any other form of clothing is specifically regarded as a taxable benefit under the dual purpose rules.

11. Stationery, postage etc.

The cost of any consumables are allowable expenses provided that they are wholly, exclusively and necessarily incurred in the performance of the duties of employment/office and there are valid receipts to support them.

12. Training

The cost of any *work-related training course* is an allowable expense.



Accounts & Business
Management Ltd

With you every step of the way

Work related training is defined as any training course or other activity which is designed to impart, instill, improve or reinforce any knowledge, skills, or personal qualities which:

- (a) are or are likely to prove useful to the employee/director when performing his/her duties or
- (b) will qualify or better qualify the employee to undertake the employment/directorship, or to participate in charitable or voluntary activities arising through the employment.

The training must relate to your current employment/directorship.

13. Subscriptions to professional societies

13.1 Professional membership fees

The statutory fees and contributions and related costs paid to certain named bodies are allowable expenses provided that

- (a) The duties of your employment/directorship must involve the practice of the profession to which the fee relates and
- (b) The registration, certification, licensing or other reason for paying the fee is a condition that must be met before the person may practice the profession relevant to performing the duties of the employment/office

A list of approved institutions is published on the HMRC website.

www.gov.uk/government/publications/professional-bodies-approved-for-tax-relief-list-3

13.2 Annual subscriptions to HMRC approved bodies

An annual subscription is an allowable expense provided that

- (a) It is paid to an HMRC approved body
- (b) The activities of the body are of direct benefit to, or concern the profession practiced in the performance of the duties of the employment/office.

A list of approved institutions is published on the HMRC website.

www.gov.uk/government/publications/professional-bodies-approved-for-tax-relief-list-3

14. Medical treatment abroad

Any medical treatment paid for whilst working abroad is not classed as a taxable benefit as is the cost of providing insurance for the employee/director against the cost of such treatment.

15. Bicycles

Bicycles and/or safety equipment, up to the value of £1,000, which are loaned to employees/directors are not classed as a benefit provided that:

- Such bicycles and equipment are available to all employees/directors and
- The employee's/director's main use of the bicycles or equipment is for journeys between home and their workplace or between workplaces



Accounts & Business
Management Ltd

With you every step of the way

16. Cars made available for private use

A car or van benefit charge is incurred whenever a car or van owned by the company is made available to an employee/director for private use. Broadly speaking, the value of the car benefit charge is calculated by finding the list price of the vehicle when new and multiplying it by the appropriate % (which depends on the carbon emissions). If fuel is provided for a company car or van, a fuel benefit charge is also incurred.

17. Beneficial loans

Where a director or employee owes the company money and no or little interest is charged then it is deemed to be a beneficial loan. The amount chargeable to tax is called the cash equivalent of the benefit of the loan. This is the difference between the interest that would have been payable if the borrower had been required to pay interest at the appropriate official rate and the amount of interest actually paid by the borrower for the same tax year. "Loan" means more than just lending money it includes any form of credit including an overdrawn director's account. No income tax is chargeable if the total balance on all beneficial loans does not exceed £10,000 throughout the year (from 6th April 2014).

However, if **any** monies (whether the balance exceeds the £10,000 or not) are owed to the company 9 months after the end of the accounting period by a participator (director shareholder in this context), then additional corporation tax is payable at 32.5% (25% before 6th April 2016) of the amount still outstanding. There are also anti avoidance measures in place for loans that are repaid but then withdrawn again within a 30-day period.

Once the loan has been repaid the 32.5% tax paid becomes due for repayment but not until 9 months and 1 day after the accounting period in which the loan was repaid.

18. Childcare Vouchers

For employer supported schemes set up before April 2011 your company may be able to provide you with childcare vouchers of up to £243 per month. In order to qualify you must meet the following conditions:

- The childcare provider must be registered or approved by Ofsted
- The child or stepchild must live with you
- The carer must not be related to your child, even if they are registered or approved, unless they run a childcare business and look after other children that they are not related to you

For those wishing to set up a scheme after April 2011, the limit depends on the earnings of the employee/director. Earnings are made up of gross pay and benefits and do not include dividends.

<u>Rate of Income Tax</u>	<u>Weekly exempt limit</u>	<u>Monthly exempt limit</u>
Basic	£55	£243
Higher	£28	£124
Additional	£25	£110



Accounts & Business
Management Ltd

With you every step of the way