Tax Smart Group

Allowable expenses for Contractors

FOR IMMEDIATE RELEASE

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Below is a list of 'common expenses' claimed by majority of contractors operating through a limited company. This list is not exhaustive, for the A to Z of expenses allowable under a limited company please visit HMRC website @ gov.co.uk and search term ‘expenses and benefits a to z’

As a general rule of thumb you can reclaim all expenses that have been incurred wholly, exclusively and necessarily in the course of running your limited company.

There are variable rules around expenses that have a dual purpose (i.e. for both personal and business use), some are allowable based on a simple calculation (proportion of utilities if working from home) and some are not allowed regardless of their business proportion (mortgage interest, council tax).

There is no order of importance to the order in which these have been listed.

1. Director’s salary. Typically a Sole Director should take around £8,060 p.a. which is £672 per month and just below the Primary Threshold (PT). If the Limited Company has an employee other than the Director and is paid over the £156 per week then we recommend the Director takes a salary of £11,000 in order to maximize the Annual Personal Tax Allowance and reduce the Gross Profit by an additional £2940 and save £588 on the Corporation Tax bill. Tax Smart Group do not charge any additional fee for payroll.

2. Salaries paid to Employees. It is possible that you may ask your spouse or another member of the family to help you with the management of your limited company affairs. You can register this person as an employee on your company payroll. This individual can take advantage of receiving up to £11,000 per annum tax-free. This £11,000 per annum salary paid to your spouse / employee is 100% tax deductible. Therefore you do not pay any Corporation Tax (CT) on this amount and by doing this could save up to £2,200 against your Corporation Tax liability of 20%. Tax Smart Group does not charge any additional fees to register up to 4 additional employees on your limited company (depending on your monthly plan).

3. Employer Class 1 NIC contributions (Employers NIC) payable on salaries to company employees. If you employ an additional employee and pay them over £156 per week you will be liable to 12% Employers NIC. You will receive Employment Allowance of £3,000 (As of April 2016). Any Employers NIC paid over this £3000 is 100% tax-deductible meaning that it is deducted from your Gross Sales before the CT is calculated at 20%.

4. Mileage allowance of 45p/mile for the first 10,000 miles, and 25p/mile thereafter for own vehicle use. Even if you are a passenger in a vehicle, travelling for business purposes, you can claim for 5p/mile. For motor bikes, there is a flat rate of 24p per mile, and for bicycles 20p per mile.

5. Parking Costs. You can also claim for parking and the congestion charges but you may not claim for parking fines or speeding fines.

6. Public Transport. The cost of travel by public transport can be claimed but you must have a valid receipt. When claiming travel expenses it is advisable that you keep a note of the dates, reason, locations mileage, type of transport etc. Basically a record of travel will provide supporting evidence if required at a later stage. Tax Smart Group through Xero Cloud Accounting software provide a smart app to record all receipts as and when they happen. In less than 30 seconds to record a receipt.

7. Subsistence. Subsistence includes meals and accommodation when travelling to a temporary place of work. This is in addition to other necessary costs of travelling, e.g. parking charges, tolls, congestion charges or business phone calls. A good example is if you travel overseas or to a training centre or visit your clients customer.

8. Training course fees. As long as the skills are relevant to the business you are in.

9. Stationery, postage, and printing costs.

10. Business insurance. The most popular types of business insurance such as public liability, employers liability, legal expenses, tax investigation, and professional indemnity insurance are all legitimate business expenses, and are 100% allowable.

11. Company formation and on-going costs (e.g. Annual Return fee), although the company formation fee is a ‘capital cost’, and cannot be set off against Corporation Tax. When using Tax Smart group there is no cost when setting up your Limited Company.

12. Home Bills can be claimed but you must calculate these correctly. If you have to work at home on a regular basis, you can only claim for things to do with your work, eg business telephone calls, mobile calls, broadband or the extra cost of gas and electricity for your work area. Directors (and employees) can’t claim back any proportion of rent, mortgage interest, or council tax from their companies – as these costs would have been paid personally anyway.

13. Purchase of Computer equipment and software.
14. Advertising and marketing of your business.
15. Business gifts up to £50 per individual are allowable before more complex rules apply.
16. Bank charges.
17. Christmas party exemption for directors and employees of £150 per person per year (you can include your partner or spouse).
18. Professional fees, such as accountant or solicitor.
19. Professional subscriptions.
20. Capital allowances (depreciation of assets).
21. Business magazines and books.
22. An eye test for employees who use computer equipment.
23. An annual private health check for employees.
24. Pension Contributions (see below)

Pension Contributions
Assume you have £20,000 worth of additional company income, and you are a higher rate tax payer, not caught by IR35. You can either put the £20,000 into a pension, or you can declare it as profit and take it as a dividend.

But if you choose the latter option and take a dividend payment, you pay:

1. 20% in corporate tax on your £20,000, leaving £16,000
2. 32.5% personal income tax on the net dividend, which takes another £5,200
3. Your total take home is £10,800.

Choosing the pensions option means that the whole £20,000 goes into a pension fund and then has an opportunity to grow in a tax efficient environment.

The maximum contribution, which can normally be paid to all pension schemes in respect of a member that may be eligible for tax relief, falls under two tests; the maximum contribution cannot exceed the members net relevant earnings or their Annual Allowance if they want to qualify for tax relief. The annual allowance from the 2016/2017 tax year is £40,000 per annum. If a member qualifies as a high earner in a tax year, their annual allowance is reduced, on a tapered sliding scale from £40,000 to £10,000, depending on their earnings for that year. From 6 April 2016 those with income above £150,000 will see their annual allowance reduced by £1 for every £2 of excess income. The maximum reduction is £30,000 - reached by clients with income of at least £210,000 - resulting in an annual allowance of £10,000

Tax Smart Group have partnered with Cranfords who provide market leading service and value for clients requiring the setup and / or administration of a SSAS or Occupational Pension Schemes.
A SSAS is a registered pensions scheme with HMRC and, therefore enjoys the same tax-exempt status as SIPPs, but with a few subtle differences which should be considered.
Such as:
• A SSAS can lend money from the pension scheme back to the sponsoring employer. There are 5 key tests that must be met in order for the loan back to be approved.
• In a SSAS, you can pool your funds with other senior staff / Directors within your pension scheme, your combined transfers / contributions can then be used for bigger buying power into:
o Direct investment in UK commercial property
o UK Real Estate Investment Trusts
o CASH
o Stocks and Shares listed or traded on an FCA recognised stock exchange
o Many other options.

Please ask your relationship manager for more information on SSAS.

Claiming expense on pre-company formation costs
According to Section 61 of the Corporation Tax Act 2009 (CTA 2009), assuming any pre-trading expenses are legitimate, “the expenses are treated as if they were incurred on the start date (and therefore a deduction is allowed for them).”

Expenses can be claimed for up to 7 years before a company starts up in business. Therefore any expenses incurred wholly and exclusively in the course of setting up the business for which the company was later formed can be reclaimed. Typical pre-formation expenses include: internet and domain name fees, computer equipment and software, accountancy and other professional fees, and travel costs.

This article is just for guidance only. Expense claims are a complicated area of taxation, and you should always consult your accountant if you have any questions.

About Tax Smart Group

Press Contacts:

Images:

1. https://journolink-static.s3.amazonaws.com/releases/fb0de6bd0769190bdf6953f1519afa9a.png

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