

# EXPENSES



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## 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 claim 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.

## Examples of expenses you can claim for:

- Director's Salary
- Salary of secretary
- Pension contributions
- Insurance
- Mobile phones
- Computers and computer equipment
- Internet connection
- Accountancy fees
- Using your home as an office Training
- 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
- Entertainment (staff only if hosting an event)
- 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 (flat rate or variable based on cost)



## Important expenses Explained

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, Skytax Accounting Ltd recommends drawing a £12,500 salary (as this is tax free allowance for 2019/20).

### 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

Regardless 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.

## Simple Cost

If you use your house partly as an office for your business, You can claim £4 per week towards the cost of using your home as an office. This adds up to an allowance of £208 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.