

Expenses Guide

Please follow these guidelines carefully, and obtain a receipt for each expense (in the name of the company). If these guidelines are not followed, individuals may be separately assessed and found liable for tax on any taxable benefits. In general, for an expense to be allowable it must be incurred wholly, necessarily and exclusively in the performance of your duties and be supported by a receipt. The HM Revenue and Customs make it clear that all of the above words are stringent and exacting and each one is obligatory. If you are in any doubt as to whether an expense will be allowable or not, please contact our office. Do not be 'greedy'. Take advantage of the items allowable within the law but do not overstep the mark – it will only encourage the tax inspector to investigate further.

Travel

You can claim the cost of all business travelling including travel between home and your contract site subject to the two rules below. This can be by train/bus/tube/taxi/air etc or by using your own vehicle. A receipt is required for all expenditure (including incidental expenses such as toll-charges, parking etc) including the actual receipts for petrol when claiming mileage. The mileage rates are set out in fig.1. This is irrespective of the 'cc' of the vehicle.

Fig. 1. HM Revenue and Customs 'Approved Mileage Allowance Payments' (AMAPs)

	Pence per mile	
	First 10,000 business miles	Over 10,000 business miles
Cars/vans	45	25
Motorcycles	24	24
Bicycles	20	20
Business passengers	5	5

Travel to the contract site is allowable where the Revenue can be satisfied that this is a temporary and not a regular place of work. Contracts within the same geographical location may be treated as the same workplace. Additional information is in the section entitled 'Travel Expenses – more detailed information'.

Rule 1

If you are travelling from home to your contract then this is subject to the '24 month rule'. This states that travel from home to work is only allowable as a tax deductible expense for as long as you believe your contract will not exceed 24 months. For example, you have a contract of seven months that is renewed again and again. If you have your contract renewed for a third time, i.e. at 21 months, then from the moment this contract is signed you would know that your time on site will exceed 24 months and the travel expenses from home to work cease to become tax deductible. It is from the time that you know that you are going to be on site for more than 24 months that you are unable to claim.

Gaps in the time spent working at a site do not necessarily re-start the 24-month rule. This is a complex area and advice should be sought from us in advance of a contract needing to be signed.

Rule 2

You will not be able to claim travel costs if you know, or it is reasonable to assume that this will be the only workplace for the duration, or remainder, of your employment i.e. there has to be a reasonable expectation of further contracts.

Accommodation, meals and incidentals are only allowable if travel is allowable.

Accommodation

Where you need to work away from home because of your contract then you can claim for the cost of the accommodation, supported by receipts. This would normally be your hotel costs.

Where property is rented, then the cost (including gas, electricity, council tax) can be reclaimed provided that you maintain and continue payment for a main residence elsewhere in the UK, to which you return each weekend. A copy of the rental agreement and receipts for the payment of the rent must accompany the claim. Where you do not return to your main residence at weekends, then you can only claim the business proportion of the rental (usually 5/7) of the cost of rental accommodation each week.

Personal Incidental Expenses

Whilst you are staying away you will be entitled to claim for personal incidental expenditure. This is to cover costs such as laundry, personal telephone calls and newspapers. Expenses in this category should be separately identified as incidental expenses. This is not a round sum allowance. You can claim for expenditure incurred, supported by receipts, up to a **maximum** cost of £5 per night (in the UK and £10 per night if overseas). This can be claimed, for each evening that you have to stay away from home. If you claim more than these figures none of it is tax deductible.

Benchmark scale rates for subsistence

HM Revenue and Customs have implemented a new benchmark system where they have set advisory scale rates for particular subsistence expenses with effect from 6th April 2009. Employers are able to pay subsistence payments up to the 'scale rate' tax free to its employees without agreeing them with HM Revenue and Customs.

The system is optional for the employer but has been introduced by HM Revenue and Customs as they recognise the alternative, of a sampling exercise before agreeing a rate with HM Revenue and Customs, is burdensome and expensive.

The rates are:

- Breakfast rate (up to £5 on breakfast) - where the worker has to leave home earlier than usual and before 6am (but not for employees who do this regularly)
- One meal rate (up to £5 on a meal) - where the worker is away from home or usual place of work for at least 5 hours.
- Two meal rate (up to £10 on a meal or meals) – where the worker is away from home or usual place of work for at least 10 hours.
- Late evening meal rate (up to £15 on a meal he would have normally had at work) – where the worker finishes after 8pm but not if he does so regularly.

Payments in excess of the benchmark scale rate, without agreeing a tailored scale with HM Revenue and Customs, may be subject to tax and National Insurance Contributions.

Entertaining

The company can reimburse you for genuine, receipted, business, entertaining even though it is not tax deductible for Corporation Tax purposes.

Training

Only certain types of training are tax deductible. For training to qualify as tax deductible it has to be undertaken as a requirement of your contract and be necessary in order to continue your work for the company. This is distinct from training undertaken to progress your career or improve your skills, which would not qualify.

Telephone

Where the subscriber of a mobile phone is the company the whole of the invoice will be allowable. No call costs on a pay as you go mobile will be allowed.

Where the subscriber of a dedicated business line in your home is the company the line rental and business call costs will be allowable. An itemised bill marked to identify business calls is required.

Only the cost of business calls on your private home telephone may be claimed. This includes mobiles. An itemised bill showing the cost of each call with the business calls identified separately and totalled is required.

Computer expenses, software, books and stationery

Where these are required for your work, these are allowable.

Use of home as office

This should represent the extra costs incurred because you are working from home. The Revenue may require proof that your domestic costs have increased. Claims are generally for extra gas, electricity and wear and tear. The HM Revenue and Customs allow upto £3 per week without any justification. If you wish to claim more then you will need to keep records to prove the additional cost incurred.

Capital expenditure

Where such expenditure is allowable, under the wholly, exclusively and necessarily rules, please ensure receipts are in the company name.

Other expenses

This will depend on the type of expense. *Please call us before you incur the expense if you have any doubt as to whether it will be allowable.*

Dispensations

Do not be misguided by what other companies say. A dispensation does not mean that the HM Revenue and Customs have agreed that certain expenses can be claimed tax free but merely that the company does not have to report them on form P11D. In the event of an HM Revenue and Customs investigation they will only permit allowable expenses. Advice to the contrary is factually incorrect, misleading and would involve you in a claim from the HM Revenue and Customs for unpaid taxes.

TRAVEL EXPENSES – More Detailed Information

The change in rules regarding home to work travel were broadly welcomed when they came into effect. They enable many contractors to claim the cost of travelling from home to their workplace as a business expense.

The examples given below are taken from the HM Revenue and Customs' guidance notes which have been written for employers generally and not just contractors. They have been included to demonstrate how the rules are applied.

The general rule is that relief is not granted for private travel and ordinary commuting where the latter is defined as travel between home and a permanent workplace. However contractors generally have no permanent work place because a workplace is not considered to be permanent if the attendance is for the purpose of "performing a task of limited duration or other temporary purpose".

There is a special rule which prevents a workplace being temporary where the period of continuous work lasts, or is likely to last for more than 24 months. This 24 month period starts from the beginning of the contract.

Earl has worked for his employer for 3 years. He is sent to perform full-time duties at a workplace for 18 months. After 10 months the posting is extended to 28 months. Relief is available for the full cost of travel to and from the workplace during the first 10 months (while his attendance is expected to be for less than 24 months) but not after that (once his attendance is expected to exceed 24 months).

Edina has worked for her employer for 7 years and is sent to perform full-time duties at a workplace for 28 months. After 10 months the posting is shortened to 18 months. No relief is available for the cost of travel to and from the workplace during the first 10 months (while her attendance is expected to exceed 24 months) but relief is available for the full cost of travel during the final 8 months (once her attendance is no longer expected to exceed 24 months).

For the purpose of this rule the HM Revenue and Customs regard duties as performed to a significant extent at any workplace if an employee spends 40% or more of his working time there. The test is whether the employee has spent or is likely to spend, 40% or more of his time working at that particular place over a period of 24 months.

Elwyn is employed as a speech therapist at a hospital in Devizes. His employer sends him to Reading for 3 days a week to supervise a new department there. He expects to be in Reading for 18 months. Elwyn is entitled to relief for his travel from home to Reading. Although he is spending more than 40% of his time in Reading he does not expect to be there for more than 24 months so Reading is a temporary workplace.

A period of continuous work can remain continuous even where there is a break in attendance.

Etaoin is employed as a human resources consultant. She works full time at a clients site for 17 months developing a new staff appraisal system and then deals with unexpected priority work elsewhere for 3 months. She then returns to the clients site for a further 6 months to co-ordinate the roll-out of the new system - as had been planned from the outset of the project.

So Etaoin expects to spend all her working time at the client's site for 23 months (17 + 6). She is entitled to relief for her travel from home to the site during the first 17 months because she does not then expect to be at the site for more than 24 months. She is not, however, entitled to relief for her travel from home to the client's site for the further 6 months. That is because she now expects to spend more than 40% of her working time at that site over a period longer than 24 months, (17 + 3 + 6 = 26 months).

It is possible to have more than one permanent workplace at the same time.

Ferdinand is a computer expert who provides his services through a company which he owns. He is the company's only employee. Each year the company has around 15 contracts with different clients around the country to supply Ferdinand's services. He regularly travels from home to work at the premises of the company's clients. Provided he does not expect to spend more than 40% of his working time for more than 24 months at any one site he is entitled to relief for all his journeys from home to the clients' premises.

Some employees do not have a single site as a permanent workplace but they regularly attend the same geographical area. For these employees the geographical area is their permanent workplace.

Eloise, a computer consultant, is the only employee of a company which she controls. She is a specialist in banking systems.

She spends 18 months working full-time at the headquarters of a merchant bank in Lombard Street in the City of London. She then moves next door to design a new computer system for a different bank where she expects to stay working full-time for 22 months.

After that assignment she moves to work at a bank close by on Cheapside for 17 months.

Eloise is not entitled to tax relief for her travel from home to these workplaces, because the nature of her work is such that she expects to work continuously in the "square mile" albeit on the premises of different banks. So her travel from home to work will be broadly the same every day, year in year out.

The workplace may change without significantly affecting the journey to work. Where a change in location has a significant effect on the journey or the cost of the journey the new location is a new workplace even if it is close to the old workplace.

Julie works for an employer who has several offices close to each other in London. Her employer rotates staff around the offices every 18 months. Julie works at one office and is then moved to another. She travels to work using the Underground and, although she now gets off ten stops further on than previously, her journey is largely unaltered and the price of her ticket does not change. Her workplace is not considered to have changed.

Karolyn lives near Ludlow. Each day she used to drive 25 miles north to her workplace in Shrewsbury. Karolyn's job is moved. Now each day she drives 25 miles south to her new workplace in Hereford.

The mode of transport is the same, the time take is the same, but the journey is in an entirely different direction. The fact that the costs of travelling to and from work do not change is a chance consequence of where she lives. Had Karolyn lived elsewhere, the change in workplace would have had a significant effect on the cost of her commuting. On that basis, this would be regarded as a fundamental change to the place where her duties are carried out, rather than a modification. The new location is regarded as a new and quite separate workplace.

NB. It has yet to be seen if journeys to different suburbs in the same city would be regarded as the same geographical location. It is better to be safe than sorry and new contracts should be taken in significantly different locations if possible.

Sometimes an employee may travel to a temporary place of work without that journey being significantly different from his or her ordinary commuting journey. If he is entitled to claim the cost of home to work travel normally, he could claim for travel to the temporary workplace. If he cannot normally claim then he would be unable to claim to the temporary work site.

Keith is a health and safety inspector who lives in Leicester. His office in Nottingham is 500 yards away from a bean processing plant. When he travels direct from home to the processing plant he is going to a temporary workplace but his journey is substantially the same as his ordinary commuting journey so he is not entitled to any relief.

The HM Revenue and Customs will look at the substance of a journey to see if it is a private or business journey.

Lew is harbour master at Larne. One day he travels to Belfast to visit his elderly mother but while there calls in at a colleague's office to deliver some new charts of the Irish Sea. His purpose in going to Belfast was private so he is denied relief because his journey was substantially private travel.

Mandy lives in Cannock and has a permanent workplace in West Bromwich. One weekend she goes to visit her grandmother in Lichfield. On Monday morning she drives from Lichfield direct to visit a client she has to see in Stafford.

Mandy is entitled to relief for her journey from Lichfield to Stafford. While she started out in Lichfield for personal reasons, and her journey is 6 miles longer than it would have been if she had travelled from her home in Cannock, the journey is substantially for business purposes. It is not therefore substantially private travel.

If a journey to work would normally be private, "emergency call outs" or "being on stand by" does not affect this. They would continue to be private.

The amount to be claimed

Where a journey qualifies for relief the amount claimed is the full cost of the journey, including parking, subsistence, hotels etc.

Micheal is required to spend 3 months working at the site of one of his employers client's. He travels to the site each Monday morning, stays in a hotel close to the temporary workplace and travels home late each Friday evening, eating dinner on the way. During the week he takes some of his meals in the hotel and others at a nearby restaurant. The cost of the accommodation and all the meals are part of the cost of his business travel.

Millie performs the duties of her employment at a series of temporary workplaces. She has no permanent home. She stays in guest houses and hotels near wherever she happens to be working. This is the only accommodation available to her.

Millie has to live somewhere and the costs of accommodation are attributable to her general need for shelter, rather than her attendance at a particular workplace. Also, the only travel undertaken is between her temporary accommodation and her temporary workplace. The cost of accommodation is not attributable to the cost of that travel. Millie is not entitled to relief for the cost of this accommodation.

While relief is available for the cost of the travel between the temporary accommodation and the temporary workplace, what she pays for accommodation is not part of the cost of that travel and will not qualify for relief.

The cost of business travel will not normally have any bearing on whether or not relief is available. For example a first class rail ticket is allowable even if a cheaper ticket was available. However travel arrangements which are unusually lavish will be taxed. Relief can only be given to the extent that an expense has actually been incurred.

Matthew receives from his employer payments to meet the cost of hotel accommodation when he has to stay away overnight on business. Instead of booking into a hotel, he sleeps in his car. Matthew is taxable on the full amount received from his employer and no relief is available to set against the payment he received for overnight accommodation because no expense has been incurred.

Receipts should be kept for all subsistence and public transport costs and detailed mileage records maintained where a private car is used.

The journey does not have to be the most direct e.g. around the M25 rather than through the centre of London may be more appropriate. There are limits to this flexibility.

During the course of a business trip, Monty takes the opportunity to visit his mother. To the extent that Monty's journey would otherwise qualify for relief, the fact that he makes a social call on the way does not affect the relief available. However, if the social call involves a significant detour, that detour is not in the performance of the duties of his employment and not attributable to attendance at a particular workplace. So no relief is available for the cost incurred in making the detour.