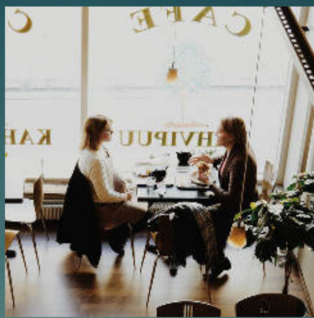
EXPENSES

CONTRACTOR GUIDE 2018

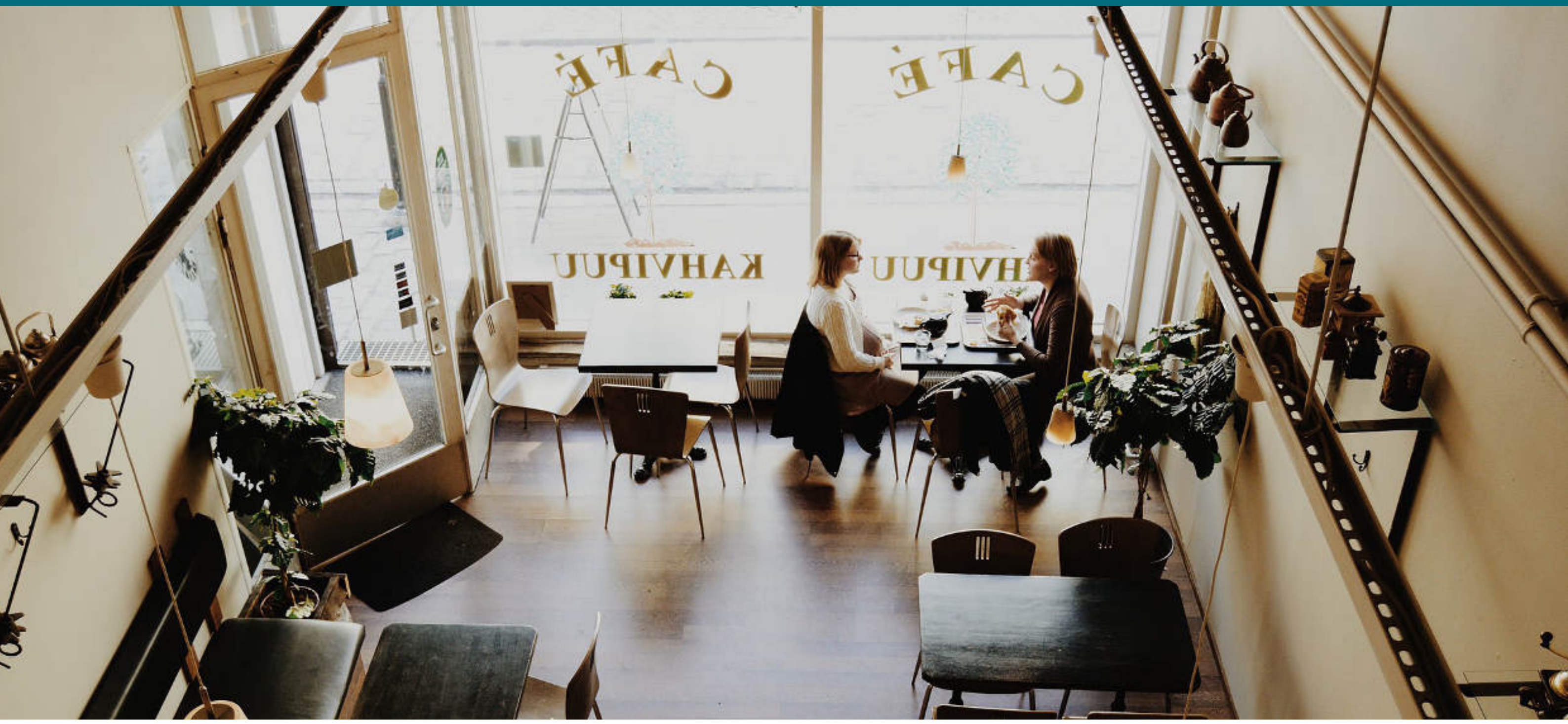
EXPENSES

We all want to pay less tax, and with the right information you can. When you know what business expenses can be deducted, you're able to pay no more than needed. Read on to find out how you can maximise profits by figuring which expenses will reduce your taxes.



Content

WHAT ARE BUSINESS EXPENSES?



A company gets tax relief for the business expenses it incurs. This means the income on which the company pays Corporation Tax is reduced by genuine business expenses and tax is calculated on the remaining profit, called taxable profit. An expense is treated as a business expense when it's incurred exclusively for the purposes of the company's trade. This guide will help you understand the basic rules about business expenses.

Tax relief is given for:

Expenses connected with the trading activity of the company
(some exceptions considered later)

Salaries and employer's NI paid to directors and employees

Expenses incurred by employees or directors while performing duties for the company and then reimbursed by the company

Any taxable payments which are treated as a Benefit in Kind for employees or directors

Capital allowances on purchase of capital assets

Where an expense isn't directly connected with company activities, or if the expense is also partly for personal reasons, Corporation Tax relief may be refused on part or the whole expense. So getting your claims right is important in keeping Corporation Tax to a minimum.

Some business expenses are incurred and paid directly by the company, but others are incurred by the director/s or employee/s.

Costs incurred personally by director/s and employee/s on behalf of the company can be claimed back from the company and the company can then claim these payments as business expenses.

To be deemed non-taxable, the expense must be wholly, exclusively and necessary for the performance of the employee's duties for the company.

IR35

If the part of the company income is subject to IR35, most expenses are not specifically deducted when working out the amount of IR35 income. Instead the expenses are replaced by a fixed 5% allowance.

Notable exceptions are the specific workers' Salary and Employers NI, expenses taxed as Benefits in Kind, travel and subsistence to a temporary workplace, PI Insurance and other expenses HMRC normally allow as a deduction from an employee's income. Also pension contributions and any capital allowances on assets connected with the IR35 activity.

Where a company has mixed IR35 and non-IR35 income, expenses (and tax relief) are appropriately allocated to the respective incomes.

Accounting for expenses

- Records should be kept of costs incurred on behalf of the company and paid personally. This will keep track of the money the company owes the employee.
- Costs incurred by the company itself are normally paid through the bank account.
- Costs paid using a personal credit card should also be recorded. If a company credit card is used then these are recorded as bank payments.

EXPENSES THAT CAN BE CLAIMED

To keep your company tax low, ensure you claim all the business expenses that you're entitled to. But be careful when claiming costs that relate to a director or employee personally; particularly when the cost is billed to the individual.

It's always best to get a company cost invoiced directly to the company even if you intend to pay for the cost personally.

Some costs are for the purchase of capital assets, such as computers or equipment. Where the asset is used in the business, tax relief will be available depending on what the asset is used for.

The following list of expenses should be considered and where incurred, claimed by the company. It's not an exhaustive list and there are some rules that apply, especially on those items marked *.

List of expenses

- Accommodation (temporary)*
- Accountancy
- Advertising and promotion
- Bank charges and interest
- Books, newspapers, technical journals and other reference material
- Business entertaining*
- Charitable donations
- Childcare*
- Company pensions*
- Computer hardware*
- Credit Card charges
- Cycle to work scheme*
- Gifts to a client or your agent*
- Gifts to employees*
- Home telephone and internet*
- Insurance (Business policies)
- Legal and Professional*
- Loan interest / Interest payable
- Mileage*
- Mobile telephone*
- Motorcycles*
- Motor vehicles*
- Office equipment, furniture, fixtures and fittings*
- Postage, printing & stationery or computer consumables
- Redundancy*
- Relocation*
- Repairs and maintenance of equipment and assets
- Staff entertaining*
- Staff training*
- Subcontractors costs*
- Subscriptions to trade or professional bodies*
- Subscriptions to services and software licences
- Subsistence: Personal Incidental Expenses*
- Subsistence: Actual costs or benchmark scale rates*
- Travelling to the UK to work*
- Wages to spouse / other employees
- Web hosting and cloud storage
- Use of home: Actual costs or weekly flat rate*

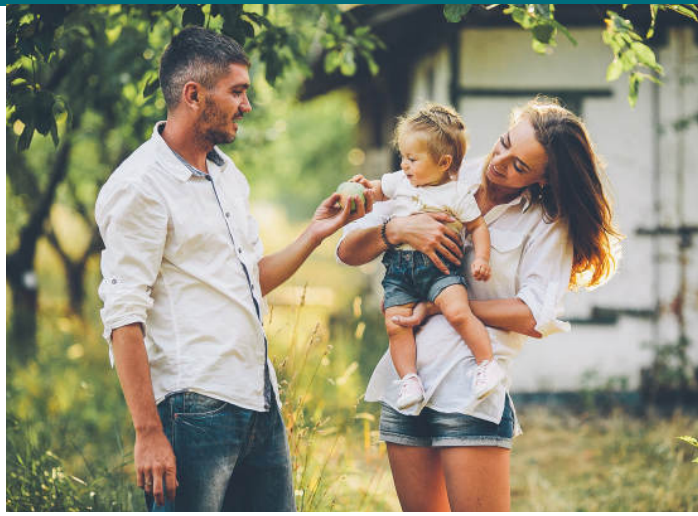
*Special rules apply

BENEFITS IN KIND

A Benefit in Kind (BIK) occurs when a director or employee personally benefits from the use of company assets or cost paid by the company and treated as a business expense.

It doesn't include payments made by the company that are treated as personal and added to the director or employee's loan account with the company.

A BIK is treated as taxable income. The Income Tax is either payable through the payroll or taxed at the end of the tax year through the individual's tax return. Some BIKs are also taxed for National Insurance Contribution (NIC) purposes either through the payroll or reported annually. The NIC is payable by the company in July each year.



The most common BIKs are:

Health Insurance	**Non relevant life insurance**	**Use of company assets such as cars and vans**	**Fuel for private mileage**	**Home telephone and personal mobile telephones**	**Childcare above the exempt amount**

National Insurance and BIKs

Where a BIK is reported through payroll the company will pay Employers NI and report the expense and tax through the Real Time Information (RTI) process. A Specialist Contractor Accountant like Intouch can handle this for you.

If the BIK is not reported through payroll it's reported annually (see below), and in some cases Class 1A NIC is payable by the company.

Reporting expenses

Where a BIK is not reported through the monthly payroll, the company must submit a return every tax year. The return is submitted by 6 July and any tax payable by 22 July.

The return reports business expenses that are repaid to employees as well as taxable BIKs. From 6 April 2016 the process was simplified by HMRC. A return will still be required but will only be necessary where tax liabilities arise on BIK's.

Company tax relief for BIKs

Where a BIK is provided the expenditure is treated as a business expense even though it's personal to the director or employee. It's regarded as part of the remuneration package for the individual and a genuine business cost.

If the company is subject to IR35, the value of a BIK is also deducted as a business expense from income before calculating the PAYE and NI.

Recharging expenses to clients

If you're allowed you may be able to recover costs incurred by your company from your client. Your entitlement to do so will probably have been agreed in advance and you'd need to consider any approval process the client expects you to follow.

PAYMENTS ON BEHALF OF THE CLIENT

When you make payments on behalf of your clients, for goods or services received and used by them, you might be able to treat these payments as 'disbursements' for VAT purposes. This means that you:

- Don't charge VAT on them when you invoice your customer
- Can't claim back any VAT on them

You leave out these payments from your VAT calculations because it's the client, not you, who buys and receives the goods or services; you're just acting as their agent.

To treat a payment as a disbursement, all of the following must apply:

- You paid the supplier on your customer's behalf and acted as the agent of your customer.
- Your customer received, used or had the benefit of the goods or services you paid for on their behalf.
- It was your customer's responsibility to pay for the goods or services, not yours.
- You had permission from your customer to make the payment.
- Your customer knew that the goods or services were from another supplier, not from you.
- You show the costs separately on your invoice.
- You pass on the exact amount of each cost to your customer when you invoice them.
- The goods and services you paid for are in addition to the cost of your own services.

It's usually only an advantage to treat a payment as a disbursement if the supplier didn't charge VAT on it, or if your client can't reclaim the VAT.

If you paid the supplier VAT on what they charged you can't claim this VAT back because a disbursement is not your cost. Your client can claim back the VAT if they have a valid VAT invoice for the goods or services issued by the supplier.

If you pass on any disbursements to your client and don't charge VAT on them, you must keep evidence, such as order forms and invoices, to show that the cost belongs to the client and was incurred on their behalf. You may also be asked to show that you haven't claimed back the VAT yourself.

Other costs to be recharged to the client

Where your company incurs a cost on its own behalf while providing your services and wishes to recover all or part of that cost from the client, the treatment for VAT is different to disbursements above.

You can recover any amount for expenses (even make a profit if you can), provided of course that the client agrees to pay them. You simply add the value of the recoverable expenses to your invoice.

Mileage recharged to the client

If you charge mileage to your client you can apply whatever rate per mile that is agreed with the client. You are not restricted by the HMRC approved mileage rates, although that is a recognisable rate to use if one has not been agreed in advance.

VAT

If you're registered for VAT, you have to charge it on your expenses to your client in the normal way and include it as part of your VAT Return.

If you're VAT registered under the standard scheme, you'd expect to recover the VAT paid on the expense itself. In this case you should only include the net of VAT expense on your invoice to the client and charge VAT at the appropriate rate on top.

The client doesn't need the original invoice to recover VAT, your own invoice meets that requirement.

Flat Rate VAT

Where you're registered under the Flat Rate Scheme you don't normally recover VAT on your costs / expenses. Your cost is the full VAT inclusive amount and this would suggest that you want to recover this full amount from your client.

This means when you add the amount (VAT inclusive) to your invoice, then charge VAT yourself, the total cost to the client is higher. Some clients might object and insist that you only charge the VAT exclusive cost. If they don't approve payment then you may have to accept this loss.

Summary

Keep track of all your invoices, receipts and papers and store them safely, as HMRC are able to request proof of expenses up to six years after they're claimed. If you're unable to provide this, you could be asked to pay the money back. Organisation is the key.

HOW INTOUCH CAN HELP

At Intouch our monthly service includes VAT returns, management and year end accounts as well as 24/7 access to our portal for keeping track of your expenses. You get a direct line to your own dedicated Personal Accountant too, which saves time and makes life easier when it comes to sorting out your expenses.

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making life richer

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