

A GUIDE TO ALLOWABLE EXPENSES FOR LIMITED COMPANIES

April 2017

Making the
numbers
work for you



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Welcome

Hello and welcome. I'm **Nicola O'Sullivan**, the founder and managing director of Effective Accounting.

I launched Effective Accounting in 2008 when I spotted a gap in the market for an accountancy firm that offered exceptional accountancy services to contractors and small business owners who wanted straightforward, jargon-free advice, with a personal approach.

Nearly ten years later, I'm still going strong. These days I'm supported by a small team who share my vision to take the worry and fear out of accounting. However, I'm still very much at the heart of the business, getting to know and supporting our clients.



Nicola O'Sullivan
FCCA MAAT

Haven't used an accountant before?

If you think accountancy is boring, difficult and too expensive, you'll be pleasantly surprised by our service.

We're a friendly, dynamic team with a fresh approach to accountancy.

We'll explain the accounting process and show you how to get the best out of your business.

How we can help you?

We'll get to you know you, understand your goals and help you build a successful, tax-efficient business.

Want to find out more?

Let's talk!

Come for a coffee and a chat at our offices in Milton Keynes, or we can visit you.

Call us today on **01908 563250** or **07743 419596** to book an appointment!

About This Guide

Running a limited company can be overwhelming.

As well as keeping on top of all those receipts and invoices, it can be tricky to know which expenses you can claim tax relief for.

Many business owners don't claim tax relief for allowable expenses because they don't know that they can. We don't want you to be one of them!

So we've written this useful guide to help you, as a director of a limited company, identify what you can claim as tax-deductible expenses.

Will this guide help me pay less tax?

Yes. By claiming all allowable expenses, you can reduce your company profits and this in turn, will reduce the amount of corporation tax you pay.

Here's an example:

If your company spends £1000 on allowable travel expenses over one year this will reduce your profit by £1000.

Corporation tax is currently charged at 19%, so you would save £190 on the amount of corporation tax you would have to pay for that year.

Sounds good? Have a read through our guide and you might be surprised at some of the expenses you can claim for. Make sure you're not missing out!

Important Notice

As the director of a limited company you and the company are separate, so you should pay for personal expenses from your personal bank account/cash and pay business expenses from the company bank account.

Although it is possible for the company to reimburse you for valid business expenses, it will be easier for you in the long-run to adopt the above approach.

Accountancy And Other Professional Fees

Accountancy

You can claim tax relief on the full cost of accountancy fees for preparing company accounts, bookkeeping, VAT return preparation, tax planning advice and many more accountancy services.

Professional/consultancy fees

You can claim tax relief for professional fees (such as solicitors, accountants, lawyers, surveyors).

This may be necessary if, for example, you need legal assistance preparing or reviewing a business contract, or setting a business lease.

There are some circumstances where this doesn't apply, so always seek our advice first.

Start-up costs

You can claim tax relief on some start-up costs, even if they were incurred before you started trading or before the company was incorporated.

For example, you may be able to claim for equipment, printing and legal costs.

Make sure you seek our advice, so we can check that you're claiming everything you can.

Advertising And Marketing

Advertising and marketing fees

You can claim tax relief on the cost of marketing activities and advertising fees. This could include social media advertising, PPC or a LinkedIn subscription.

However, be aware that some activities you consider to be marketing may fall under other categories.

For example, you may think that taking a client out to dinner comes under marketing but it would be classed as 'entertaining' (which cannot be claimed) by the HMRC.

Please seek our advice and we'll check that you're on the right track.

Website costs

You may be able to claim tax-relief on the cost of building and maintaining a business website.

The website must, of course, promote the business giving it a clear on-line presence.

Domain and hosting costs can also be claimed on the same basis.

Business Premises

Whether you work from home or have separate dedicated business premises, you can claim the associated costs through the company and they will be tax deductible.

Working from home

If you're working from home, your company can repay you for some costs associated with running the business.

There are two options:

1. Basic Allowance

You can claim up to £4 per week (or £18 per month) without having to itemise or justify the costs to HMRC. This basic allowance is designed to acknowledge you writing up business notes, invoices and general ad-hoc administrative tasks at home.

2. Apportioned Cost

If you work from home at least one full day per week, and have dedicated office space in your home, you may be able to claim a proportion of your household bills.

The amount you can claim will depend on:

- **Area:** What proportion of the area of the house is used for business?
- **Usage:** How often do you use the area for business and how long for?
- **Costs:** What costs can you attribute or apportion to this business usage?

The costs you can proportion are mortgage interest (excluding repayment element), rent, water, gas and electricity. You may also be able to claim a proportion of your landline and broadband costs.

If you choose to use the apportioned method, you'll need to ensure you can prove that you have a functional workspace that's used exclusively for business. You'll also need to be able to provide evidence of your calculations to a HMRC inspector, if requested.

External business premises

If you rent office space, the company can cover the full costs of the rent, rates (if applicable), utilities and telephone/broadband connections. This applies equally to ad-hoc room rent or a full business lease.

Charitable Donations

You can claim tax relief on cash donations to charity. There are also other types of donations that the company may be able to claim for such as staff time, equipment and sponsorship.

You'll need to check with your nominated charity that they are able to accept the donation.

The rules are complex and the guidelines differ for different types of donation, so please seek our advice.

Childcare

Your company may fund childcare in several ways.

For example:

- The company can provide a workplace facility.
- It can give childcare vouchers to employees.
- The company can have a direct arrangement in place with a childcare provider (this is the most common set-up for small businesses).

The company may be able to claim tax relief, provided the following qualifying conditions are met:

- The childcare provider must be registered with Ofsted.
- The child or stepchild must live with you (the director) or staff member who is claiming.
- The childcare provider must be paid direct from the company. You cannot claim by reimbursing personal costs.

The company can contribute and claim tax relief on childcare costs of up to £243 per month per director or staff member.

Contact us for further information and advice.

Clothing and Laundry

Unfortunately, you can't claim for everyday **clothing** that could be worn outside work (even if it isn't).

However, if you or your employees need protective clothing or uniform that can only be worn at work, your limited company can pay for these and the cost will be tax-deductible.

The cost of **laundering** the above clothing can also be claimed as a business expense. The cost of laundering general business clothing and suits etc. cannot be claimed.

Finance Charges and Interest

Bank account, credit card, hire purchase and loan interest charges

If your company holds any of the above in the company name, the company can claim tax relief on the interest payments and charges.

If you hold any of the above in your own name, any interest or overdraft charges should not be included in the company's accounts.

Gifts and Entertainment

Gifts

Employees

A gift to an employee may be considered a taxable benefit, depending on the nature of the gift.

If it's considered a 'trivial benefit' (such as a bouquet of flowers for a leaver) then the company may be able to apply to HMRC to not pay additional tax or National Insurance.

Non-employees

You can claim tax relief on a gift given to someone outside the company, as long as it meets the following criteria:

- a. The gift isn't vouchers, tobacco, drink or food.
- b. The cost of the gift doesn't exceed £50.
- c. The gift is clearly marked with the company's logo.

Entertainment

Clients

You can't claim tax relief on client entertainment. In fact, the company can only claim tax relief on entertainment for employees that are on the company payroll.

Employees

You may be able to claim tax relief on employee entertainment. However, it can also be classed as a benefit that the employee has to pay extra tax on.

To avoid being classed as a taxable benefit the event (commonly a Christmas party) must meet the following criteria to be considered a 'qualifying event' by the HMRC:

- a. The event has to be open to every employee.
- b. It must be an annual event.
- c. It mustn't exceed £150 per attending guest.

Insurance

You can claim full tax relief for insurance such as:

Contents insurance

Contents insurance is necessary if you own or rent external business premises.

Professional indemnity insurance

Often compulsory for freelancers and contractors, this insurance covers the business for any claims of financial loss due to error or negligence.

Employer's liability insurance

This is compulsory by law if you have staff, and covers the business for any claims by employees for injury etc.

Public liability insurance

This insurance is optional and covers the business for any claims from the public for injury etc.

Medical / Health

Private medical insurance

Your company may be able to make a contribution towards private medical insurance for directors and employees. If the insurance provides more than one standard free check a year, it will be classed as a benefit in kind and the company will have to pay National Insurance.

Medical treatment

There are some circumstances where the company can provide medical treatment for employees, without it being considered an employee benefit.

For example, eye tests for employees who regularly use a PC screen as part of their role (as this is a legal requirement).

Life insurance

You may be able to put the cost of life insurance through the company and claim as a tax-deductible expense if you meet the following conditions:

- The policy can only provide life cover and no other benefits.
- The policy can only pay out a lump sum if the director/employee dies in service before age 75.
- The policy can't have a surrender value.
- The policy can only pay out to an individual or charity

Pensions

The company can claim 100% tax relief on contributions made to its own pension scheme for directors and employees.

We, along with our recommended financial advisors, can provide more detailed information. Please get in touch to find out more.

Postage and Stationery

Postage

You can claim tax relief on postage costs incurred by the business

Stationery

You can purchase and claim tax-relief for stationery for use by you and your employees at work, along with computer and printer consumables etc.

Technology and Computer Equipment

You can claim tax relief on the cost of computer equipment and software it provided it is for business use only (and no more than 'insignificant' private use).

What if I already own equipment?

When you start up, if you want to bring your own office equipment or computer into your business, you can claim tax relief on its market value at the time you brought it into the business (to effectively sell it to the company).

Look at second-hand selling groups or eBay to get an idea of the item's current value and then estimate the cost for the company's accounts.

Second-hand equipment brought into the company

If you buy second-hand equipment you can claim tax relief as a capital asset (as it's new into the company).

Telephone and Broadband

Mobile phone

Most small business owners will have one mobile phone for both business and personal use.

The purchase of the handset and cost of the line rental and calls can only be paid for and treated as tax-deductible in full if:

- The handset and contract is in the company name.
- The company pays the costs directly (not reimbursing the director/staff member).
- The phone is primarily used for business use, with minimal/incidental personal use.

Important: if the mobile contract is in your (the director's) name, and you pay for it personally, strict rules by HMRC state that you can only claim the cost of business calls based on an itemised bill, and no proportion of line rental.

Landline telephone

If you're the only member of staff and work from home, you can claim the cost of your business use of your home line, based on itemised calls.

You should pay the phone bill yourself (from your personal bank account/cash) and claim part of it back from your limited company.

If you have a separate phone line for the business, either at home or at business premises, it's advisable to put it in your limited company's name and for the company to pay the bill direct.

The company can then claim tax relief on the full-cost of the line rental and business calls.

Internet (Broadband)

Much like mobile phones, the cost of home broadband can be claimed provided that the contract is in the name of the company and paid direct from the company bank account. Personal use must be minimal.

Training and Continuing Professional Development

Training

Tax relief can be claimed on training and development, as long as the training is relevant to your business, with the key aim being to update or upgrade your knowledge and skills.

Training that will not directly impact the business (for example, learning a language that isn't necessary for the business) would not be allowable.

You can also claim associated costs such as travel and accommodation while you are training.

Professional subscriptions

The company can pay for subscriptions direct to professional bodies (as long as they're on the HMRC's approved list), without incurring extra tax or National Insurance costs.

The company can also pay fees direct to professional bodies not on the HMRC's list, but this will be classed as a taxable benefit.

Books/magazines

You may be able to claim tax relief on some books and magazines, but you will need to be able to prove that they are relevant to your business.

Travel, Accommodation and Subsistence

Important: Tax relief can only be claimed on costs incurred in travelling to a 'temporary workplace'. This is classed as a workplace attended for a limited period of time (up to two years – known as the two year rule).

Freelancers and contractors in particular should be aware of the limits imposed by the two year rule.

Vehicle expenses including fuel

There are different rules here depending on whether you use a company owned vehicle or your own.

Company owned vehicles

1. Car

Any company car has an element of private use. If you purchase a car through the business, the company will be able to claim tax relief but you (personally) will pay tax on the benefit of having private use of the vehicle. This is calculated on list price, CO2 emissions, fuel type and transmission type. For this reason, in most cases it is more tax efficient to claim mileage (see below). However, different rules apply for commercial vehicles, eg. a van.

2. Van (or other commercial vehicle)

If the company owns a commercial vehicle it can pay for the cost of the vehicle along with all maintenance, insurance and fuel costs. These costs will be tax-deductible.

Cont'd

Travel, Accommodation and Subsistence cont'd

Personal vehicles

You can claim business mileage from your limited company when driving your own car for business purposes.

Here's a table of current rates (2017).

Vehicle	Rate per mile (first 10,000 miles in tax year)	Rate per mile (on subsequent miles over 10,000)
Cars	45p	25p
Motorbikes	24p	24p

When claiming, check with us for the most up-to-date information.

Bicycle travel

If you use your own cycle to travel for work purposes, this is classed as business travel and you can claim 20p per mile from the company.

The company may be able to provide you or your employees with a bike. Get in touch if you want to find out more about this.

Trains/flights

The company can pay for the cost of air or rail travel that you've paid for, without HMRC considering this a taxable benefit, in the following circumstances:

- The travel is between business appointments (from one client to another).
- You were travelling to a temporary workplace.

Hotel accommodation

The company can pay for the cost of hotel accommodation without it being considered a taxable benefit in the following circumstances:

- You required accommodation because you were away for business purposes.
- You were attending a business appointment.
- You were working at a temporary workplace.

Speeding and parking fines

You can't claim tax relief on these costs, even if you're travelling on business.

Tolls and car parking

The company can pay the full cost of tolls and car parking.

Subsistence

The company can pay the cost of food whilst you are working away (provided that you are travelling to a temporary workplace).

There is no limit to the amount you can claim but it should be modest and reasonable. As an example; we suggest a sandwich and snack for lunch would be reasonable, a three-course sit down meal would not.

Alternatively, you could claim HMRC approved subsistence rates. For more information on this, please get in touch.

Salaries

Director

As director (and therefore employee) of your limited company, the salary paid to you is considered an allowable expense (this goes for National Insurance contributions too).

You can choose how much salary the company pays you (as long as you fall outside IR35 legislation).

We will recommend the most tax-efficient option for your business and review it on an annual basis.

Employee

You can claim the salary of your employees as an allowable expense.

We strongly recommend you seek our advice before taking on staff as you will have a number of responsibilities and obligations to fulfil.

DISCLAIMER:

We've written this guide to give you an overview of what you may be able to claim.

The rules for claiming tax relief are complex and subject to change, so make sure you check with us for the latest information and guidelines.



Don't have an accountant, or thinking of changing your accountant?

We'd love to help you save money and make a success of your business. We have a straightforward, jargon-free approach to accountancy, taking away the worry so you can concentrate on your business.

Let's talk

We can come to you, or you're welcome to come and meet our friendly team in Milton Keynes.

We can talk you through the options and provide you with details of our fixed fee services, with no obligation on your part to take things further.

Get in touch today to make an appointment!

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