

What expenses can you claim for in your limited company?

The main rule is “an allowable expense should be wholly, exclusively and necessarily incurred in the performance of your day to day business.” Any direct expense incurred running your business should be claimed, there are some expenses that you might think meet the criteria but are unfortunately not allowable, such as entertainment and professional attire.

However, if you are operating as a limited company you can pay for these expenses through the business, but they will be disallowed when calculating your corporation tax. Be careful that you do not trigger a benefit in kind from the company if you are claiming chargeable items.

Wages/ Directors Remuneration

It is tax efficient to pay yourself, as a director, a salary to utilise your personal allowance. You could also consider paying your partner a salary, only if they work in the business and have some personal allowance available. Current rates can be found on HMRC’s website <http://www.hmrc.gov.uk/rates/it.htm> The cost of employing staff is an expense to your business, along with the employers national insurance contributions.

Pension Contributions

Pensions are a good tax planning tool, they are normally an allowable expense for corporation tax.

Telephone, Mobile and Broadband

If you use these for your business then you should claim the expense. Ideally the expense should be paid directly by the company, remember if the expense is paid personally and not wholly for the business, then only the business element should be claimed. If you claim the whole amount you would trigger a benefit in kind if there is personal use.

Hotels and accommodation

If you are travelling around the country/globe visiting clients then the cost of your hotels are an expense to your business. If you are travelling for business and pleasure, the pleasure amount must be incidental to the trip for it to be an allowable expense. If this is not the case then the whole trip will not be allowable.

If you are working abroad for a long period of time there are certain circumstances when you can claim the costs of your partner coming to visit you.

Depending on the circumstances you can claim a flat rate (without a receipt) of between £5 and £20 per night, depending on where in the world you have travelled for work, to cover incidental expenses such as food etc. However, with the rising costs of food you might be better off claiming the actual costs, rather than the flat rate allowance.

If you (a director), or one of your employees stays away from home during the week, because your client is based too far away to travel each day, then the hotel cost is also allowable. However, if for convenience you stay there for the weekend, you should only claim the expense for when you are there working.

You can also, if it is cheaper, rent a property rather than paying hotel charges. Again, if you are staying there 7 nights, but only working 5 days, then the 2 days should not be claimed as a business expense. Also, if you are renting for more than two years then the area you are staying in is then deemed your home and the expense would no longer be allowable and there could be a benefit in kind implication.

Mileage Claim

It is normally more tax effective to claim mileage rather than buying a car through the company, mainly due to fuel rate charges and benefit in kind issues. You can claim 45p per mile for the first 10,000 miles and 25p thereafter. Remember you need to keep a mileage log showing all of your business miles.

The 2 year rule also applies here, if you travel to the same client's address, more than circa 60% of your time, then after 2 years HMRC deem this as commuting and is a disallowable expense.

Motorbikes and cycle bikes What expenses can you claim for in your limited company?

As with a car you can also claim mileage for a motor bike, which is 24p per mile and 20p per mile for a cycle bike. Don't forget to log your miles, even cycling to the bank for business is allowable.

Other travel expenses

Train, bus and taxis are all allowable expenses if you use these to visit clients, or for other business trips such as seeing your accountant or bank manager. Car hire and parking charges can be also claimed.

If an employee receives a parking ticket whilst working, then this fine can be paid by the company and claimed as a tax deductible expense. Note that parking tickets are only an allowable expense for employees, not a sole trader.

Subsistence

Although we all have to eat, there are a few circumstances where you can claim your daily meal as an expense in the UK. If you are staying away from your home overnight then a reasonable evening meal is allowable. You can also claim for your business journey if it is outside your normal pattern of work, such as leaving before 7am. Alternatively, you can claim a flat rate of £5 per night, depending on your circumstances and reasons for working away.

Travel & Subsistence – Umbrella and Personal Service Companies

If you provide your services through an umbrella company or a personal service company (PSC) where intermediaries legislation applies (IR35) then there will be restrictions to the tax relief allowed on travel and subsistence expenses from 6 April 2016.

Accountancy fees

Of course our fees are a tax deductible expense, but only the business element. If your personal tax return is included then a benefit in kind is triggered unless an adjustment is made in your director's loan account when the annual accounts are prepared.

Entertainment

NOT ALLOWABLE, but remember that if you are entertaining clients you can claim the expense back but the company cannot claim the tax relief. This is a useful tax planning tool if you personally are a higher rate tax payer. There are limited exceptions for entertaining overseas clients.

Don't forget that the company is allowed to spend £150 per employee, per year, for a festive party. If the cost is more than £150 then the whole amount becomes disallowable. If the party is going to cost more than £150, it is recommended that the directors pay the difference personally so that the £150 is still available as an expense.

Training and development

The rule here is that you can claim for maintaining/enhancing your skills required in the business, but not the acquisition of new skills. For example an IT contractor going on a computer course is allowable, but learning to become a pilot would not be allowable.

Advertising

If you are advertising and marketing your business these expenses are allowable. Examples would include yellow pages and Google ad words. Don't forget to claim any costs involved in social media and networking.

Companies House fees

Paying your annual filing fee is an allowable expense. Some accountants include this fee in their fixed priced accountancy packages.

Bank Charges and loan interest

If you are charged bank fees, then these can be claimed, along with the interest charged on borrowings in the company name, including loans and overdraft facilities. Factoring charges are allowable and any bank management fees or arrangement fees can be claimed.

Professional Subscriptions

If you are a member of a professional body, which relates to the trade, your annual subscription is allowable, along with any continuing professional development to maintain the membership.

Reference books and Journals

If you need reference books or journals to support your trade or part of your training, then you should pay for and claim these in the company.

Eyesight tests

This is a tax deductible expense for limited companies. You can claim for the eye test and normally the lenses, but not the frames.

Office stationery and postage

All your paper clips, pens and paper can be claimed, not forgetting the huge cost of postage. Luckily emails are free! Couriers can be claimed, along with other sundry office costs such as cleaning, loo roll, tea and coffee supplies.

Computer Equipment

As computers rarely last more than 2 years, any PC's, laptops and iPads used for business can be claimed. Currently you can use your annual investment allowance to claim the whole expense in the year of purchase.

Computer software, depending on its life span, can be either claimed as an expense or capitalised and included in the annual investment allowance claim. If software is normally upgraded yearly it can normally be expensed, inline with its useful life.

Use of home as an office

If you maintain an office/storage facility at home, then HMRC allows you to claim £4 per week without any proof of expenses. Alternatively you can calculate a percentage and time in use, this proportion of the total household expenses can be claimed. For example if you use a spare room and you have a 3 bedroom house, including a lounge and kitchen, you can claim 20% of your household bills. **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. This is stated in HMRC [EIM32815](#). However, when claiming use of home as an office, if this proportion of the home is permanently used as an office then it is not eligible for principle private residence relief and subject to capital gains tax if you sell your property and make a gain.

Office furniture and any machinery

Your office chair, desk and cupboards can be claimed as an expense, in the same way as computer equipment, this applies to any machinery used in the production of goods.

Legal and professional fees

If you require the help of a solicitor and if their service is related to the business then the expense is allowable. If it relates to capital items, then the cost needs to be capitalised with the capital expenditure. If you are paying for legal work to raise capital or drawing up shareholder agreements, then these costs are also not allowable. Professional fees such as business coaches/consultants etc are allowable.

Repairs and renewals

General maintenance of your property is allowable, such as light bulbs, fixing broken equipment etc. However improvements/significant renovations should be capitalised and added to the base cost of the property.

Leasing of equipment

To lease or buy is sometimes a difficult decision. Leasing is an allowable expense for corporation tax and is very useful for cash flow purposes. If you have used your annual investment allowance for the year it will take you some years to obtain full tax relief from the capital investment of the new equipment. Leasing an asset gives you tax relief as the expenditure is incurred.

Clothing

Business clothing is **not allowable**, due to the duality of purpose. The only clothing items that would be allowable would include items that were recognisably part of a uniform and protective clothing, such as steel toe cap boots and high visibility jackets.

Insurances

All of your insurance products are allowable expenses, such as professional indemnity and public liability insurance. You can also claim key man insurance and certain types of life insurances. The general rule is if the pay out of a claim is taxable then then premium will be tax deductible.

Business gifts

Food and drink are **not allowable**, however a gift of under £50, with your corporate branding, can be claimed. A nice corporate umbrella or pen will be fine.

Company Formation fees

The initial cost of forming a company can be paid by the business, or reimbursed to the director, but this expense is **not allowable** for corporation tax.

Franchise Fees

If you are purchasing a franchise fee over a period of time, then you need to check whether the initial fee can be claimed in the first year or needs to be amortised over its useful life, i.e. the franchise period.

Goodwill

Purchased goodwill can be amortised over its useful life and is normally a tax-deductible expense, however there are situations where this is not allowed, normally when there is a related party individual. You can also claim the goodwill created on incorporating your sole trader business or partnership into a limited company. Please contact us for more details on how this would work. This is only possible for trades started after April 2004.