

The background of the page features several light blue circles of various sizes scattered across the upper and middle sections. A large, stylized lowercase "fw" is centered on the page, with the "f" in pink and the "w" in light blue. The title "Expenses Guide" is overlaid on this graphic in a blue, sans-serif font.

Expenses Guide

OUR PROMISE TO YOU

We at Freshwater believe that it is important to adopt an ethical approach to dealing with our clients. As a valued client you can be assured that we will act in your interest at all times. To this end we pledge the following:

Good Advice

As a company with extensive accountancy and tax experience we will take the time to make sure that you, the client, is aware of the options available to you. As a professional practice we will also constantly review our advice and legislation and procedures to ensure that you get the very best advice and appropriate tax efficient solution.

A Fair Price

At Freshwater we work on lower profit margins than most comparable accountants. This ensures that we are extremely competitive, and that you receive excellent value for money.

Clear and Simple Documentation

We will ensure that all paperwork is as simple as possible and in plain language. Our terms and conditions shall be clearly understandable, and we will answer any questions you may have.

Speedy and Efficient Service

We aim to complete each stage of your accountancy requirements in the minimum amount of time possible and will assign a named person to liaise with you, keeping you informed of progress.

A Consistent Service

For us, our relationship with our clients does not end once you have signed up. We are interested in long term relationships with all clients. As your accountants we see our role as being available for advice and assistance in the event of changes in circumstances or requirements.

GUIDE TO EXPENSES

Your guide to expenses

Here at Freshwater, one of the most popular questions we are asked is about expenses.

We have produced this guide to provide you with what you need to know regarding the main expenses that you may wish to claim. This guide does not try to cover all expenses, however, we have aimed to cover the most common type of expenses that contractors and freelancers may wish to claim.

Please take a few minutes to read through this guide and check that you are complying with any conditions for claims that you may be making.

Background

You may claim for expenditure that you need to incur to run your business. The exact type and level of expenses can be very complicated and it is important to read this guidance and act accordingly. Expenses incurred by the company must be "wholly and exclusively" for the purpose of the business, however, there is an exception to this rule where the non-business purpose is merely incidental to the business purpose.

If any expenditure has a dual purpose, then this expenditure will generally not be claimable. An example is clothing, you need to wear clothing whether you work or not, so the dual purpose prevents a claim.

Assistance

Remember that we are here to help and assist you to get the most out of our relationship with you. This expense guide has been compiled with the aim of providing you with a quick guide to the typical expenses that you can claim for.

If you would like more details on a particular area, please feel free to talk to your contact at Freshwater. We are always here to help.

Salaries

A salary paid to the director (assuming they are the fee earner for the company) will be an allowable expense, together with the employer National Insurance Contributions (NIC).

If the contract is not caught by the IR35 regulations then you are free to pay whatever level of salary you wish.

Some clients pay a salary up to the National Insurance limit of £7,488 (2012/13), however, some pay a salary at least equal to the National Minimum Wage (NMW) rate, currently £6.08 per hour. On average this works out at around £11-12,000 per annum. Generally, paying a salary at £7,488 will save £871 per annum over a NMW salary.

Salaries to the Company Secretary/Partner

Whilst in theory this is possible, in reality this can be quite hard to justify. You can pay the going rate for secretarial support etc but this generally will not amount to very much.

Typically, the support work for a contractor's company will be minimal, say a couple of hours per month. At a rate of say £10 per hour you are looking at an annual salary of just £240!

Our advice would be to leave this one; the new Companies Act has removed the requirement to have a Company Secretary from 6th April 2008.

Home Office Costs

The easiest method is to claim the flat allowance of £208 per annum, no receipts are required and this is allowed by HMRC if you use part of your house as an office. Simply claim on your expense form and it will be included in your accounts.

Training Costs

Work-related training costs can be paid by your company provided that the purpose of the training is to upgrade or enhance your current skills. If the purpose of the training is to gain new skills, the cost will be treated as capital expenditure and your company will claim Capital Allowances.

Notes:

- The training must be designed to impart, instil, improve or reinforce any knowledge, skills or personal qualities which are likely to prove useful when performing your duties.
- Costs associated with the provision of the training are allowable, such as travel and hotel accommodation.

Travel Costs

Tax relief is available for travel & accommodation expenses in certain circumstances, it is worth noting that the legislation is designed to allow travel and subsistence to an employee who moves from site to site within their employment.

Relief is available for travel between home and a temporary workplace. You cannot claim for ordinary commuting.

A temporary workplace is where you go to perform a task of limited duration or for a temporary purpose.

Whether you can treat your client's workplace as temporary depends upon how long you are based at one particular site or expect to spend at one site, the amount of time spent at a workplace is also considered.

In most cases a temporary workplace will be one that you do not, NOR expect to be at, for more than 24 months.

There are some special circumstances that may affect any claims, please contact the office if you require further details:

- If you are only based at one site whilst working through your company and then you close the company, you cannot claim for travel and associated costs.
- If you work at more than one site on the same contract
- If you generally work at various sites within a defined location (eg City of London)

The main types of travel costs that may be claimed are as follows:

Mileage Allowance Payments

The following rates can be claimed for business journeys:

Per Tax Year	First 10,000 miles	Miles over 10,000
Cars	45p	25p

Other forms of travel (train, bus, plane etc) are also eligible, however ensure that you obtain receipts for the journeys; overuse of taxis are not generally accepted so we advise against excessive use.

Example - If you sign a twelve month contract (at a new location), then you will be able to claim for most of the travel/accommodation costs involved. If, at the end of this contract you extend it for a further twelve months, at this point you expect to be at the site for a total of at least 24 months and so any claims for travel/accommodation would cease at the date you sign the contract.

If you extended for just 11 months, you could continue to claim, because at this stage you do not expect to be at the site for 24 months.

Accommodation

Hotels & Guesthouses

Where an employee stays in a hotel or guesthouse relief is permitted in full for the costs actually incurred. As always the invoice should be in the company name and supplied with the expense claim form if paid personally.

Rented Flats

In many cases furnished accommodation (e.g. flats) can be obtained as a cheaper and more convenient alternative to hotel accommodation. Provided that the total cost of the accommodation is appropriate to the business need, is reasonable and not excessive, tax relief should be allowed.

The cost will be accepted as reasonable where the total cost of providing the accommodation does not exceed the cost of hotel accommodation of an appropriate standard.

In all cases (hotels/guesthouses/flats) you may also claim for the provision of breakfast and an evening meal.

If you are staying away from home due to business commitments you may also claim for a subsistence allowance of £5/night (£10/night overseas). This is intended to cover small incidentals such as laundry, newspapers etc.

Lunch/Meals

You will be able to claim for the cost of a sandwich etc, purchased on the way to a temporary workplace, or at lunch time. We would suggest that the cost of this should be reasonable and you will need to retain receipts.

We would consider that the cost of this would include liquid (non-alcoholic) refreshments and should cover lunch at a cafe etc.

What is not covered is the cost of making up a packed lunch at home or buying ingredients at a supermarket, such as bread and cheese etc.

Christmas Party/Annual Event

An annual event, commonly a Christmas Party, is an allowable expense for the company and you will not be taxed upon it providing you meet the following conditions:

- The total cost must not exceed £150 per head – if the cost is just 1p over then the whole cost will be subject to tax and NIC, not just the amount over £150;
- The event must be open to all staff, although in reality that will just be you!
- You may invite a partner, but if partners are invited, all staff must be entitled to invite a partner –invited partners will count for the £150 per head allowance.

Business Entertaining

Business entertaining may be paid through your company, however tax relief is not given by HMRC.

Mobile Telephones

The provision of one mobile phone (including smartphones) is exempt from any tax charge. The exemption covers the telephone itself, any line rental and the cost of private calls paid by the employer on the telephone.

Notes:

- The number of phones provided for private use is restricted to one;
- Mobile phones provided to members of your family and household are excluded;
- To qualify, the contract must be in the name of the company and paid from the company bank account.

Internet Access

You can claim for the cost of Internet/Broadband access at your home subject to the following:

- There is no separate billing or record of access connections (if there is, then you can only claim for the business connections);
- No breakdown is possible between work and private connections;
- Private use is not significant;
- The contract must be in the name of the company and paid from the company bank account.

Computer Equipment

If you require the use of a computer/laptop in order to carry out your duties then you can claim for the cost of providing one.

The company will be entitled to 100% Capital Allowances for the cost and so the tax relief is given in the year of purchase.

Notes:

If you are on the VAT Flat Rate Scheme (as we generally recommend) then you will only be able to reclaim any VAT if the total cost is in excess of £2,000.

Childcare Vouchers

As a contractor, your company may be able to provide you with childcare vouchers, a popular method to pay for childcare. Up to £243 per month can be provided to each employee.

There are two ways in which childcare costs can be paid from the company, via a voucher scheme or via a direct agreement with the childcare provider.

Voucher Scheme

Your company can purchase vouchers from a childcare voucher scheme provider such as Busy Bees and issue these to the employees. The employee then uses them to pay towards childcare at a registered provider. The scheme provider will charge an administration fee, typically about 2-5% of the face value of the voucher.

Direct Agreement

This is where your company agrees directly with a registered childcare provider to purchase childcare and provide this to your employee. A simple letter of agreement between your company and the childcare provider is all that is needed here, stating the amount that your company agrees to purchase on behalf of the employee; a sample letter can be found at the on our Childcare Factsheet, available on our website.

Generally the voucher scheme is easier for the employee to use; however, there are additional costs involved due to the admin fees charged. Remember, which ever option you choose, the costs must be paid direct from the company bank account.

Conditions

To qualify the following conditions must be met:

- The childcare vouchers can only be used at registered or approved childcare providers;
- The child or stepchild must live with you;
- The child or stepchild for whose maintenance you contribute (either in full or in part) is yours;
- The child qualifies, up to 1st September after their 15th birthday (16th birthday if they are disabled); and
- The child carer must not be related to your child, even if they are registered or approved, unless they run a childcare business and look after other children that they are not related to.

Benefits

Assuming that you do not receive a large salary, you can benefit to the maximum amount of £243 per month, the tax savings can be generous, and the amount will depend on the top rate of tax you pay and how your company provides for the childcare. It is possible to save over £1,000 of tax each year.

Pension Contributions

Pension Contributions made by your company to a pension scheme will no longer automatically be allowable for tax relief.

From 6th April 2006, pension contributions can only be claimed if it can be shown that the contributions have been incurred “wholly and exclusively” for business purposes.

The Revenue may try to establish whether the pension contribution has been paid for a “non trade purpose”, i.e. does the contribution benefit the person far more than the business?

HMRC have stated that they will not challenge an overall remuneration package and its split between salary and pension contributions. Provided the overall contributions do not exceed the annual allowance of £50,000 – there should not be an issue with making company contributions in excess of the salary paid.

We would advise you to consult with our pensions advisor prior to making any pension arrangements. Although Freshwater are not authorised to offer advice regarding pension and other investment products, we can arrange for a financial advisor to contact you.

Insurance

By law, every employer must take out a policy for employer's liability insurance, which covers the employer against claims by the employee for injury etc. This cover is no longer required if you are the only employee and you own at least 50% of the shares.

Other insurance's that you may consider taking out include:

- Public Liability Insurance – to insure you against claims from third parties that may sue if they have suffered from your actions.
- Professional Indemnity Insurance – to insure you against any claims made against you, for example, your client suffers a financial loss as a result of your error or negligence. Please see the insurance shop part of our website for further information It would seem that the Revenue would accept pension contributions as part of an overall package made up of salary and pension contributions. Remember that personal tax relief (for pension contributions) is capped at 100% of the salary paid.

Currently there is not much difference in the tax benefit between contributions paid personally or by the company.

Medical Insurance

The company can pay for medical insurance (eg BUPA, PPP) however this would always be taxed as a benefit in kind, and the company would pay NIC of 13.8% on the cost. The policy must be in the company name or you will also be liable for personal NIC payments.

Charity Donations

Donations made to a charity from company funds will gain relief from corporation tax, assuming they are 'wholly and exclusively' for the purpose of trade. You need to ensure that the charity is aware that the donation is from the company and it should be paid direct from the company account.

To ensure that full corporation relief is available the charity donations should not cause the company to make a tax loss as the gift aid donations will then be 'lost' for corporation tax purposes i.e. you cannot carry back/forward tax losses caused by excess gift aid donations. Generally, you or a connected person should not benefit from the donation. Please refer to our full factsheet for further details.

The charity donation should not be attached to any condition or benefit between the charity and the donor.

Accountant's Fees

Accountancy fees for taking care of your accounting and tax advice are an allowable expense. Fees seem to range from £50 upto £300 per month, in choosing an accountant we suggest you consider three factors:

1. Experience – using a specialist contractor accountant and one that is aware of IR35 will pay dividends;
2. Fees - whilst some accountants take the view of charging as much as they can get away with, at Freshwater, we are interested in a long-term client relationship based upon mutual trust, something that will be absent if the client is unfairly treated, particularly when it comes to price;
3. Qualifications – sadly, anyone can call themselves an accountant, so look that they are qualified. ACA, ACCA & CIMA are the main qualifications to look for.

The freshwater service is £85+VAT per month.

Miscellaneous Items

Other costs that can be paid by your company will include:

- Professional Subscriptions
- Postage costs
- Stationery and computer consumables

Important - To avoid potential problems with anything you wish to claim for, it is vital that it is your company that makes the contract and pays for the expense you wish to claim for. This is particularly important when claiming for a mobile phone, internet connection, computer equipment and training costs.

Salary & Expenses for contracts caught by IR35

If the contract is caught by the IR35 regulations then there are limits to what can be claimed prior to the deemed salary calculation. Any of the expenses detailed in this guide that are not allowed under the IR35 rules can still be claimed provided there are sufficient remaining funds from the 5% allowance.

The IR35 qualifying expenses are as follows:

- Travelling, accommodation and subsistence expenses that are allowable
- Employer contributions to approved pension schemes
- Professional Indemnity Insurance costs
- Subscriptions to approved professional bodies
- A further flat rate of 5% of the gross payment from the contracts. This does not have to be accounted for to calculate the “deemed salary”; the 5% allowance will be allowed in all cases. Expense receipts/claims will be required to reclaim any VAT and to claim against Corporation Tax.
- Employer National Insurance contributions

The total of the above items will be deducted from the income from the contract(s) and this net amount will be paid as a salary to you. This salary is subject to tax and National Insurance in the normal way.

Set Up

- Form a Limited company at Companies House.
- Register your company for PAYE.
- Register your company for VAT.
- Register your company for Corporation Tax.
- Register your company for the VAT Flat Rate Scheme.
- Assist with opening a Cater Allen or HSBC Bank account.

Monthly

- Operate your payroll with payslips for each employee.
- Calculate and issue profit statement for your company.

Quarterly

- Calculation & advice of VAT returns & payments.
- Calculation & advice of PAYE payments.

Annually

- Issue and file P14's/P60 & P35 with HMRC.
- Issue and file P11d & P11d(b) with HMRC.
- Calculate and advise of Class 1A NIC payments.
- Prepare & file annual accounts with HMRC.
- Prepare & file Corporation Tax return (CT600) with HMRC.
- Prepare accounts for Companies House.
- Prepare Companies House Annual Return (AR01).
- Personal Tax Return if received by 31st July after the end of the tax year.
- A small charge may apply if you join part way through the tax year.

As When

- Dedicated Account Controller including their direct phone number & email address.
- Unlimited telephone & email support.
- Ongoing book-keeping.
- Produce dividend vouchers and board minutes.
- Deal with any general HMRC correspondence and queries.
- Advise Companies House of company changes.
- Deal with change of address for the company and director.
- Mortgage & tenancy references.
- Complete National Statistical Office questionnaires.
- Deal with HMRC investigations were we have done the work, provided you have followed our advice and/or not concealed anything from us.
- If you decide to cease using our services, your only commitment is to give us one month's notice.
- If you choose to move to another accountant, we do not make a charge for the transfer.

Your obligations to us:

- Send us copies of your invoices.
- Send us your expense claim form.
- Send us a copy of your company bank statements.
- Respond to letters and emails from us.
- Pay our fees each month.