

HANCOCK
— AND —
HASTINGS
ACCOUNTANTS

Corporate Expenses
Guide for Ltd Companies

HELP FOR BUSINESSES AND OWNERS



TYPICAL COMPANY BUSINESS EXPENSES

The tax legislation enables certain expenses to be claimed as a deduction against business income, thereby reducing the income tax or corporation tax liability. To be a business expense it must be incurred wholly and exclusively for the purpose of the business.

The rules are stricter for employee expenses; they must be incurred wholly; exclusively and necessarily, for the performance of duties. The list of expenses is long and the rules are not always straightforward.

Here are some of the most common types of expenses you may encounter which are generally allowable, when you follow the rules:

Accountancy

Fees from the first advice given before you start. There are exceptions including certain tax fees arising from an HMRC enquiry. Directors should note that fees relating to the completion of their self-assessment income tax return is not an allowed expense and should be paid separately or it is liable to a benefit in kind charge, if it is paid by the company.

Accommodation

Including hotel and rental costs whilst staying away from home, for the performance of duties. Accommodation associated with a temporary workplace may be claimed, provided the length of the contract isn't going to exceed 24 months.

Advertising

Where it is not a capital investment.

Air Fares

You should note that if you recharge the expense to your client, even though air fares do not incur VAT, if you are registered for VAT you must charge VAT.

Annual Investment Allowance

You can get tax relief on expenditure on plant and machinery.

Bad Debt

Where unpaid for 6 months and not a general provision. The VAT charged on the bad debt, where you are not on cash accounting, may be reclaimed provided all reasonable steps have been taken to recover the debt.

Bank Charges

Charges such as those on an unauthorised overdraft are not allowable. This includes reimbursing charges to an employee. There may be a benefit in kind to the employee.

Bicycles

Deduction may be claimed under HMRC approved mileage allowance payments at 20p per mile; under the HMRC Cycle to Work Scheme; or through capital allowances where the business buys the bicycle.

Books and magazines

Where the book or magazine is relevant to the business then the expense is allowable. If there is an element of self-interest then it is not an allowable expense and would be classed as a benefit in kind.

Broadband

Where the contract is between the broadband supplier and the company. Where there is not a contract between the supplier and the company, there will be a benefit in kind charge on the full amount of expense claimed.

If there is an existing personal connection and the employee is required to work from home then the expense is not an additional cost and is therefore not allowable. If the employee is required to work from home and there is an additional cost, say to install or upgrade, then that cost and the monthly fees are allowable.

Business Gifts (corporate)

Where a gift is made that has a business element, for example a mug with an advert on then it is an allowable expense. Where a general gift is made with no specific advertising element, then it is treated in the same way as entertainment. Gifts of alcohol, tobacco and food are not tax deductible. Output VAT is not chargeable on business gifts provided the cost of the gifts does not exceed £50 per person in any 12 month period. Input VAT may be claimed.

Business Start Up

The cost associated with incorporating the company and setting up of the VAT and PAYE registrations are allowable. The formation fee is a capital cost and cannot be claimed.

Capital Allowances

Is claimed on assets and can attract 100% relief, high CO2 cars being the notable exception.

Charitable Donations

Provided they are to a registered charity and do not put the business into a loss making position.

Childcare Vouchers

Employees can claim up to £55 per week without incurring tax and NICs and it is not reportable to HMRC. Employee savings can be up to £933 a year better off and employer's up to £400. A new scheme was introduced in 2015 when you can decide whether to join the new scheme or continue with the old.

Christmas Gifts

A gift of up to £50 per year may be made, provided it is not food, alcohol or tobacco. A gift over £50 is taxable on the employee. There needs to be a minimum of two employees for this relief to apply.

Clothing

Only tax deductible where the clothing is a specific uniform with either business branding or required for health and safety reasons.

Computer equipment

Tax relief via Capital allowances may be claimed.

Director's wage

Wages are allowable and the director should be given at least a minimum salary. The National Minimum Wage Regulations will not apply unless there is a binding contract of employment.

Eye Tests

There is no benefit in kind charge on the employee where they are required to use a monitor in the performance of their duties. This is also the case for glasses etc. if there is a new prescription required solely for use whilst using the computer.

Foreign Exchange

Any exchange rates, (approved by HMRC by courtesy of the Financial Times), associated with exchanging business money are an allowable expense. If there is a profit incurred then this needs declaring as an income stream and tax will be charged.

Hire and Rental

If the hire of equipment is purely for the business then it is an allowable expense. An example would be the hire of a photocopier.

Hire Purchase

Hire purchase is an agreement to pay for an item with an agreed cost over a period of time. The costs, including interest are allowable.

Home Working Expenses (Use of home as office)

A round sum allowance of £6 per week may be claimed as an expenses from 6 April 2020 (£4 per week before 6 April 2020). This is considered adequate to cover the additional costs of working from home and does not require supporting paperwork.

Where the director works from home on a more permanent basis then the amount of additional costs incurred may be claimed and we have a simple spreadsheet to help you with this.

Incidental Overnight Expenses

Where an employee is working away from home, a fixed sum of £5 per night (£10 for working overseas) may be claimed to cover incidental costs such as telephone calls, newspaper or laundry.

Insurance

A business that has employees other than its director/shareholder is legally obliged to carry Employer's Liability. Professional Indemnity must be in place if specified in a contract by your client.

Other insurances include Public Liability, Tax Investigation, Office Contents, Jury Service, and Motor for business vehicles owned by the company, also Key Man. All may be claimed. Other insurances may be claimed but may attract a benefit in kind charge ie Executive Income Protection and Health.

Interest on loans

Interest charged on business loans or other finance payments and on company credit cards or company overdrafts are allowable. Interest on late payments of tax is allowable. Interest on PERSONAL credit cards are not.

Key Man Life Insurance

Key Man Life insurance is a policy befitting the business in the event of a sudden loss of the key executive in the business. It is to cover the cost of employing another key person or to implement strategies to save the business. The cost is allowable against business tax and as the policy belongs to the business there is no benefit in kind charge to the key person.

Leasing rental

There are two types of leasing available: finance lease and operating lease. Both are accounted for in different ways. On a finance lease, the item on lease is written into the balance sheet as an asset with depreciation charged against it. The payments and interest are allowable against business tax.

An operating lease is usually for a shorter term than the life of the asset and is not written onto the balance sheet. The payments are treated as rental and are allowable against business tax.

Legal Costs

Legal costs for business purposes are allowable providing they are not costs incurred for fraud, fines, illegal actions or related to capital items.

Magazines and Books

Where the publication is wholly for business use the expense is allowable. Where a person benefits from them personally or there is an element of self-interest then they are not allowable.

Marketing Costs

Marketing is an allowable expense. The cost of developing a website should be treated as an intangible asset and capitalised on the balance sheet with amortisation charged. We would normally capitalise website costs where the website performs a function for the business, for example, customers are able to buy items from you directly through the website.

Medical Insurance

Annual medical check-ups provided to an employee are allowable against business tax and do not incur a benefit in kind charge. Medical insurance that is paid for by the employer is claimable but a benefit in kind charge applies. Where the employee is working abroad, the cost of the insurance to cover treatment is allowable and no benefit in kind charge is applicable.

Medical Treatment

Medical treatment is allowable and a benefit in kind charge would not apply whereby the employee incurred the treatment directly associated to injuries or diseases related to work, and is paid directly to the supplier by the employer. Treatment provided whilst working abroad is allowable and no benefit in kind charge applies.

Mileage

The approved mileage allowance payments are 45p for a motor vehicle for the first 10,000 business miles reducing to 25p thereafter in a tax year. Mileage for motorcycles is a fixed rate of 24p for all miles and 20p for bicycles. Where an employee is claiming approved mileage, see above, for using their own vehicle and they also carry a passenger(s) for business journeys, each additional person in the vehicle can claim 5p per mile.

Mobile Telephone

Mobile phones provided to employees are allowable against business tax. Providing the device is solely for the employee's use (not family) then there is no benefit in kind charge. A phone in the name of the employee cannot be wholly claimed by the business, only the cost of the business calls where separately identified. Business calls made as part of a personal, unlimited minutes bundle, and claimed, will be subject to a benefit in kind charge.

Motor Vehicles

Motor vehicles are an asset of the company and a capital cost which is reflected on the balance sheet and against which depreciation is charged and capital allowances claimed. Usually these give rise to a benefit in Kind and it is rare that a small company provides a car to the director.

If the Vehicle is a pool car, to avoid a taxable benefit for an employee, it must not be kept at or near an employee's home. The rules on pool cars are complicated and can give rise to very large tax bills if not dealt with correctly. Separate advice should be taken.

National Insurance Contributions

Employee NICs are paid by the employee from gross salary. Employer's NICs are paid by the employer on top of the gross salary and are tax deductible, as are class 1a NICs paid on benefits in kind. There is an initial Employers allowance which can be claimed after you take on your first employee.

Office/Christmas Parties

Office parties are an allowable expense, providing that the event is open to all employees; and the value per attendee does not exceed £150 and they are annual events.

Office Rental

Office and virtual office rental is allowable. Where business rates are charged, these are also tax deductible.

Parking

Parking is an allowable expense. Employees can be reimbursed for parking near work premises without incurring a benefit in kind charge.

Patent Costs

Costs associated with a Patent, whether granted or not are generally allowable.

Pension Contributions

Contributions made by the company to an executive company pension scheme are allowable for employees/directors.

Postage

Postage is allowable. Royal mail is exempt from VAT but companies using a private company may be charged VAT that may be reclaimed.

Professional fees

Professional fees that are wholly incurred for the business are allowable.

Printing

Printing is an allowable expense.

Repairs

The cost of routine maintenance or repair of an asset is an allowable expense. If however, an asset that has been acquired that needs repairing in order to make the asset good, then this is part of the cost of the asset and is not an allowable deduction, but capital allowances may be claimed which may produce the same result.

Salaries and Wages

Salaries or wages and the employer's national insurance contributions are an allowable expense, provided reasonable.

Scholarship

Businesses may offer scholarships to employees. These scholarships are exempt from income tax and national insurance provided certain conditions are met, for example the course must be full-time; the grant must not exceed £15,480 per annum excluding course fees. The cost may not be allowed as a business expense and the recipient should not be a member of the director/shareholders family.

Software

Software with a life expectancy below 2 years is an allowable business expense. Where the expectancy is above 2 years, it is capital expenditure and should be reflected on the balance sheet as an asset and depreciation charged and capital allowances claimed.

Sponsorship

Sponsorship can be made in two ways: where the business receives something in return and where nothing is received in return. Both are allowed as a business deduction.

Stationery

Is an allowable expense.

Subsistence

May be claimed when on a business journey or for an employee on a temporary assignment whose place of work is not the permanent place of work for example. a contractor. Employers may choose to pay a scale rate to employees subject to a dispensation agreement. This is not classed as a benefit in kind. However, for one person limited companies it is advisable to claim the actual receipted cost of the meal rather than the round sum allowance. Subsistence payments cease when it is known that the length of the contract will exceed 24 months.

Subscriptions to Professional Bodies

Certain professional fees may be deducted for business tax, and HMRC provides a list. The fees must be relevant to employee's the business duties.

Taxi fares

Taxi fares for business travel are allowable.

Telephone

A land line telephone that is billed to the business is allowable. Where a home landline is used for business use then the call costs may be claimed.

Training

Training costs to update or enhance an existing skill are allowable. Training for new skills that are not relevant to the services the business currently supplies are not, as they cannot usually be shown as being incurred in the performance of their duties. They are a capital cost.

Travel

Travel expenses for business purposes are an allowable expense. These may include air fare, taxi, tube, rail, car mileage. First class or lavish travel may be disallowed if it can be shown to be a reward rather than a necessary business expense. Travel between home and a permanent work place is not allowable.



Trivial Benefits

Some benefits given to an employee are classed as trivial by HMRC.

The criteria for what is trivial is quite strict and all conditions must be met to apply:

- It cost you £50 or less to provide.
- It isn't cash or a cash voucher.
- It isn't a reward for their work or performance.
- It isn't in the terms of their contract.

Where all the criteria above are met you don't need to pay tax or National Insurance on the expense and they are not reportable to HMRC as benefits in kind. An example of a trivial benefit would be giving each of your employees a £25 non-cash gift voucher as a Christmas present.

Please note, if the cost of the benefit is over £50, the whole amount becomes taxable, not just the excess over £50.

Directors cannot spend more than £300 per annum on themselves on trivial benefits.

TAX EFFICIENT BENEFITS AND EXPENSES

The tax legislation provides exemption from tax for a number of benefits and expenses.

Making use of available exemptions is a fundamental part of any tax-efficient remuneration strategy and the same considerations apply in the context of a family company.

In the main, the tax exemptions are mirrored for National Insurance purposes.

- Approved mileage allowance payments and passenger payments, you may also claim VAT.
- Incidental overnight expenses [£5 per night in UK, £10 per night abroad].
- Travel expenses from home, if that is the locus in quo of the business.
- Use of your home as an office.
- Travel expenses to and from a temporary workplace for up to 24 months.
- Food and drink consumed en route or at a place where he travels to work, provided the work is itinerate or travel occasional.
- Works transport services.
- Subsidised public bus services.
- Employer provided cycles and cyclists' safety equipment.
- Low or zero emission cars for self and family.
- Work-related training.
- Christmas parties and other annual functions (to a maximum of £150 per head).
- Employer-provided childcare.
- Employer-contracted childcare – to maximum of £55 per week.
- Removal expenses and benefits (to a maximum of £8,000).
- Trivial gifts that are not service related.
- Contributions to a registered pension scheme.
- Mobile phones – one phone per employee may be provided tax-free.
- Suggestion scheme awards.
- Long service awards.
- Eye tests and corrective appliances, and Health screening and medical check-ups.
- Company loan not exceeding £10k in the year.

It should be noted that the availability of the exemption is generally dependent on conditions being met. These often include the requirement that the benefit is made available to all employees. Within the context of a family company this is unlikely to be a problem.