



CHARTERED ACCOUNTANTS



# ***The A-Z of Expenses***

# The A-Z of Expenses

There are two categories of qualifying expenses that are commonly defined as either Schedule D (incurred by the business) and Schedule E (incurred by the employee)

- Schedule D expenses must be incurred **wholly** and **exclusively** for the business to be deductible against corporation tax.
- Schedule E expenses must be incurred **wholly, exclusively** and **necessarily** for the performance of the duties.

Where a Schedule E expense is incurred that is not necessarily incurred, it is still allowable as a deduction for corporation tax but a benefit in kind charge will apply to the employee and the company will pay class 1a NICs.

HMRC have an extensive listing of the tax treatment of [Schedule E expenses](#).

Expenses that have a **duality of purpose** (whereby it is a mixture of business and personal costs) are non allowable, although there are several exceptions to this [rule](#).

Expenses reduce the corporation tax liability of the company.

Documentary evidence such as a receipt should be kept for a minimum of 6 years. Where Schedule E expenses are claimed; the employee is required to log all expenses on a claim sheet and sign, which should then be authorised by an independent person.

There is a glossary at the end of the table.

## Type of Expense

## Criteria

### Accountancy



All fees including advice pre-incorporation are allowable. Accountancy fees charged for managing an unapproved off-shore scheme are non allowable.

Completion of the self-assessment tax return is a Schedule E expense and carries a benefit in kind charge if paid by the company.

### Accommodation



Whilst staying away from the primary residence for the performance of your duties, hotel or B&B and accommodation may be claimed.

Property rental is allowable under [guidance 480 chapter 21.24](#) where it satisfies the rules.

Accommodation associated with a temporary workplace will cease under the [24 month rule](#) when the length of the contract is known to exceed 24 months.

### Advertising



Advertising can often be confused with sponsorship. Please see [BIM 42555](#) for clarification. Where the advertising is not a capital investment, i.e. long-term or permanent, then it is an allowable expense where it is in the course of the business. Please see sponsorship further on.

### Air Fares



Air fares are allowable. If you recharge the expense to your client or agency, even though air fares do not incur VAT, you do need to charge VAT on top of the cost if you are VAT registered.

## Type of Expense

## Criteria

### Annual Return Fee



Allowable, often charged by your accountant as a disbursement if they file and pay the annual return on your behalf. There is no input VAT recoverable.

### Bad Debts



Bad debts may be written off the profit and loss account after they have been unpaid for a period of 6 months. The VAT charged on the bad debt will also need deducting from the output tax total. [PIM 2054](#) conditions that the debt is allowable if “all reasonable steps have been taken to recover the debt”.

### Bank Charges



Bank charges that are authorised, such as a transaction or exchange charge; are allowable. Charges such as an unauthorised overdraft fee are non allowable.

Where the company reimburses bank charges such as CHAPS fees or overdraft fees to an employee, these are non allowable for tax deduction purposes and would incur a benefit in kind charge. By direction of [EIM01010](#), where an employee (the director) would normally expect to have salary paid on the last working day of the month; and the company failed to comply, then any bank charges incurred by the employee may be reimbursed and are not classified as a benefit in kind. The employer however, may not claim this as an allowable expense as it is treated as a penalty or a breach of what was expected of them, verbally or contractually.

## Bicycles



There are 3 ways to claim bicycle expenses.

1) Under HMRC approved mileage allowance payments (AMAP's) in [EIM31240](#) each mile may be claimed at 20 pence. The rate remains unchanged from 2002. As directed in [EIM31235](#), where a claim for AMAP's has not been made, an employee can claim mileage allowance relief (MAR) on their P11d.

2) HMRC has an approved "[Cycle to work](#)" scheme under direction of the Department of Transport. The company takes a lease agreement for an amount, say £1,000 for example for which they receive a voucher in the employee's name. The voucher states how much can be spent on the cycle and accessories. The employee repays the value to the company via a [salary sacrifice](#) through their salary. At the end of the lease term, the cycle remains the property of the employee. The lease costs are deductible against corporation tax. The employee has saved tax and NICs on the amount paid in salary sacrifice. There are conditions that need to be met as stated in [EIM21664](#), but these do not generally apply to a one employee business.

Please seek advice from us before using this scheme.

3) The company purchase the cycle and accessories which becomes an asset. The asset is then made available to the director or employee for business mileage. The asset is

written off as a capital allowance in the first year under the annual investment allowance ([AIA](#)). If personal mileage was made then it would be classed as a benefit in kind and Class 1A NICs would be charged.

### Broadband Internet



If the contract is between the broadband supplier and the company then it is an allowable expense.

As directed in [EIM01475](#), 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 an allowable expense.

Wi-Fi costs 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. Output VAT is not chargeable on business gifts of up to a maximum of £50 per person in any 12 month period of the cost of the gift. If this amount is exceeded, then VAT is chargeable on the whole cost of the gift as directed in [BIM45065](#).

Adverts for alcohol, tobacco and food are not deductible. Where a general gift is made with no specific advertising element, then it is

treated in the same way as entertainment and is a non allowable expense for tax deduction or input VAT.

### Business Start Up



The cost **associated** with incorporating the company and setting up of the VAT and PAYE registrations are allowable, also described as 'professional fees'. The incorporation fee is a one off capital cost and cannot be claimed against tax; however it can be reimbursed to the director from the company, if they incurred the cost.

### Capital Allowances



[Capital allowances](#), (with the exception of some cars) attract 100% relief to offset in the first year against corporation tax if valued up to £50,000 before 1<sup>st</sup> April 2010 and £100,000 after. Cars with low CO<sub>2</sub> emissions, natural gas, hydrogen qualify as above.

### Car Hire



If the vehicle is hired purely for business use, the whole expense is allowable. Where there is a combined business and personal use, AMAPS should be applied (see mileage below).

### Childcare Vouchers



[Childcare Vouchers](#) can be paid from employers to employees who have at least one child in the care of a registered child care provider. You can claim up to £55 per week without incurring tax and NICs and it is not reportable to HMRC. Amounts over the £55 threshold will be a benefit in kind. To see if you

## Christmas Gifts



would be financially better off, use the [HMRC calculator](#).

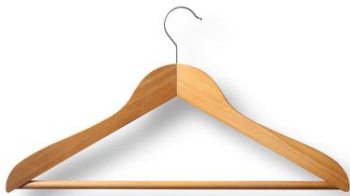
For one director companies, Christmas gifts are not allowable; there needs to be a minimum of two employees. Then a gift of up to £50 in any year can be made but must not be a purchase of food, alcohol or tobacco. A gift over £50 would be a benefit in kind. [EIM20502](#) states that gifts must not be “by reason of employment” for example, a father that employs his son is expected to give him a gift due to their relationship outside of employment, and is therefore not “by reason of employment”

## Charitable Donations



[Donations](#) to a registered charity are allowable providing they do not put the company into a loss making position. You should have some documentary evidence and retain it for a minimum of six years. Donations to a non-registered recipient are non allowable.

## Clothing



Where the clothing is a specific uniform with either company branding or for health and safety purposes then it is an allowable expense. The expense is reported on the P11d unless there is a dispensation in place covering it.

## Company Incorporation



CERTIFICATE OF INCORPORATION

This is a one off capital expense that is not allowable for tax deduction. The company can however reimburse the director for the full cost if they incurred it.

## Type of Expense

## Criteria

### Computer equipment



Equipment is treated as an asset and 100% relief is given against corporation tax in the first year up to a maximum of £50,000 before 1<sup>st</sup> April 2010 and £100,000 after under the Annual Investment Allowance ([AIA](#)).

### Depreciation



Depreciation is an expense that is deducted in the profit and loss account and then added back in for corporation tax purposes. Tax relief is given on the whole capital expense in its first year when the corporation tax return (CT600) is filed.

### Director Salary



Salaries are allowable and the amount should be set according to the individual's remuneration strategy including attitude towards risk. A minimum salary of the NICs lower earning level (LEL) is advised to be paid to a UK resident to ensure the state pension contributions are maintained. A director without a contract of employment is not bound by the National Minimum Wage regulations.

### Dues to Professional Bodies



Section 201 ICTA 1988 allows certain professional fees to be deducted against corporation tax. Please check this [list](#) for qualifying suppliers. The fees must be relevant to the business duties of the employee.

### Entertainment



Entertainment whereby you take a client out for dinner is not allowable against tax. The [input VAT](#) cannot be claimed for the director or non-employees. If it was business entertainment provided to the employees and the director attends, then all of the input VAT may be claimed.

The company can however reimburse the director if they have paid. The director's element of the expense may qualify as a subsistence expense within the HMRC approved rates. Entertainment for employees is covered later in Office parties.

### Eye Tests



Employees who are required to use a monitor in the performance of their duties are able to be reimbursed the cost of an eye test without it being a benefit in kind under [Section 320A ITEPA](#). The company can claim the full cost as an expense. Where there is a new prescription required solely for the use whilst using the computer, then this may also be reimbursed to the employee free of tax and NICs and claimed as an expense against corporation tax.

### 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 corporation tax will be charged.

## Type of Expense

## Criteria

### Health Checks



Please see Medical Insurance further on.

### Hire and Rental



If the hire of equipment is purely for the business then it is an allowable expense.

### Hire Purchase



Hire purchase also known as closed-end leasing is an agreement to pay month by month for an item with an agreed cost to buy the item at the end of the agreement. The contract should be in the company name.

### Home Working Expenses (Use of home as office)



Under [Section 316A ITEPA](#) a round sum allowance of £3 per week may be claimed as an expense, with no supporting evidence. This is considered adequate to cover the additional costs of working from home.

Where the director works from home on a more permanent basis then the amount of additional costs incurred may be claimed under [EIM32810](#).

## Type of Expense

## Criteria

### Incidental Overnight Expenses



Where an employee is working away from home, [Incidental expenses](#) a fixed sum of £5 per night (£10 for working abroad) may be claimed to cover incidental costs such as telephone calls, a newspaper or laundry. The expense does not need to be receipted but should be reported on the P11d unless a [dispensation](#) from HMRC is held.

### Insurance



A limited company that has any employees other than its director/shareholder is legally obliged to have Employer's Liability insurance. Professional Indemnity insurance must be in place if specified in a contract for services. Other insurances may include Public Liability, Tax Investigation, Office Contents, Jury Service, Motor Insurance for business vehicles owned by the company, Key Man Life. All of these may be claimed as an expense. Insurances that also may be claimed against corporation tax but will attract a benefit in kind charge include Executive Income Protection and Permanent Health. There is no input VAT recoverable on insurance products.

### Interest on loans



Interest charged on business loans or alternative finance payments is allowable. Interest charged on company credit cards or company overdrafts is allowable. [Corporation tax interest](#) due on late payments is an allowable expense.

## Type of Expense

## Criteria

### Key Man Life Insurance



Key Man Life insurance provides a policy in the company name that is the beneficiary in the event of a sudden loss of the key executive in the business. It basically covers the cost to employ another key person or implement strategies to save the business. The cost is allowable against corporation tax and as the policy belongs to the business there is no benefit in kind charge to the key person as stated in [PSI11.1.6](#)

### Leasing rental



There are two types of leasing available. Finance leasing and an 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 corporation 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 corporation 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.

## Type of Expense

## Criteria

### 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 non 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 depreciation charged.

### Medical Insurance



Annual medical check-ups provided to an employee are allowable against corporation 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.

## Type of Expense

## Criteria

### Mileage



Under [AMAP](#) (approved mileage allowance payments) a rate of 45p for a motor vehicle is payable 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.

### Mobile Telephone



Mobile phones provided to employees are allowable against corporation tax. Providing the device is solely for the employee's use (not family) then there is no 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.

### 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.

### Office Parties



Office parties are an allowable expense. Providing that the event is open to all employees; and the value per employee does not exceed £150 then the expense is not classed as a benefit in kind.

## Type of Expense

## Criteria

### Office Rental



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

### Passenger Mileage



Where a director/employee is claiming [AMAPs](#) for using their own vehicle and they also carry a [passenger/s](#) for business journeys, each person in the vehicle (not the driver) can claim 5p per mile.

### Parking



Parking is an allowable expense. Employees can be reimbursed for [parking nearby](#) working premises without incurring a benefit in kind charge.

### Patent Costs



Patent costs incurred, whether granted or refused are allowable as directed in [CA75310](#).

### Pension Contributions



Contributions made by the company to an executive company pension scheme are a tax deductible expense.

### Postage



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

## Type of Expense

## Criteria

### Professional fees



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Professional fees that are wholly incurred for the business are allowable against corporation tax.

### 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 against corporation tax as directed in [BIM46906](#).

### Salaries and Wages



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

### 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.

## Type of Expense

## Criteria

### Sponsorship



[Sponsorship](#) can be made in two ways. The first where the company receives something in return, e.g. regular advertising. The charity would be taxed on this as income, and the company making the payment may deduct it against corporation tax. Where a donation is made and nothing is given in return, then the charity is not taxed on the amount as it is a donation not an income stream. This is also allowable as an expense to the company making the donation.

### Stationery



Stationery is an allowable expense.

### Subsistence



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 e.g. 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 under the [24 month rule](#) when it is known that the length of the contract will exceed 24 months.

## Type of Expense

## Criteria

### Taxi fares



Taxi fares for business travel are allowable.

### Telephone



A landline telephone that is billed to the company is an allowable expense. 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 an allowable expense. Training for new skills that are not relevant to the services the business currently supplies are not an allowable expense as the expense is not incurred in the performance of their duties as directed in [BIM35660](#) but is a capital cost.

### Training Manuals or Books



Where the book or manual 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.

### Travel



Travel expenses for business purposes are an allowable expense. These may include air fare, taxi, tube, rail, car mileage. [First class](#) (part 5.14) or lavish travel may be disallowed if it can be proven to be personal reward rather than a necessary business expense. Travel between home and a permanent work place is non allowable.

# Glossary

<b>P11d</b>	Return of employee expenses and benefits not covered by an HMRC dispensation
<b>SATR</b>	Self-Assessment Tax Return
<b>NICs</b>	National Insurance Contributions
<b>B&amp;B</b>	Bed & Breakfast
<b>CHAPS</b>	The Clearing House Automated Payment system is a same day money transfer
<b>AMAPs</b>	Approved Mileage Allowance Payments by HMRC
<b>MAPs</b>	Mileage Allowance Payments approved by a dispensation
<b>BIK</b>	Benefit in Kind charge where the employee is subject to income tax and national insurance contributions and the employer pays class 1 A NICs
<b>Class 1A NICs</b>	Employers national insurance charge for the employer on expenses and benefits provided to an employee
<b>CT</b>	Corporation Tax
<b>LEL</b>	Lower earnings level
<b>ICTA</b>	Income and Corporation Taxes Act 1988
<b>ITEPA</b>	Income Tax (Earnings & Pensions) Act 2003
<b>AIA</b>	Annual Investment Allowance for capital costs
<b>MAR</b>	Mileage Allowance Relief