

# A Guide to Business Expenses for Limited Companies



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## Introduction

Did you know that you could be saving money on your taxes?

As the Director of a Limited Company, you undoubtedly already have a million and one things to think about every day, and HMRC's tax rules can be complex and confusing. If you don't claim every deduction you're entitled to, you could be spending more on your tax bill than you need to. But if you claim something that isn't an allowable expense, you run the risk of a lengthy investigation and hefty HMRC fine.

This guide is designed to take the guesswork out of the process. We will help you save money by walking you through everything you can legally claim as a business expense - from salaries to office supplies, and pensions to Christmas parties. You might be surprised just how many things you can claim, potentially saving you thousands of pounds every year.

Remember, if you have any doubts or questions, contact an accountant. The team at BGS Accounting is trained and equipped to help you with every aspect of your small business accountancy needs.

## Frequently asked questions

### What is tax relief?

Corporation Tax is the percentage of your total profits that you must pay to the Government before dividends can be paid out to shareholders. As of April 2020, the main rate for Corporation Tax is 19%.

Tax relief is the deduction of business expenses from the profit that is liable for Corporation Tax. So if you made £200,000 this year but it cost you £50,000 in allowable expenses to run the business, the remaining £150,000 would be liable for Corporation Tax.

### What is an "allowable business expense?"

An allowable business expense is any expenditure that is essential to keep your business running. There are strict HMRC rules on exactly what constitutes an allowable expense, which will be covered in this guide.

### How do I prove my allowable expenses?

You must keep meticulous records of all your business incomings and outgoings. This includes keeping receipts for any allowable expenses, no matter how big or small.

If you cannot produce a receipt, you should not claim the expense. We recommend keeping both a physical and digital copy of all receipts in case of accidental destruction or deletion.

The law requires financial records to be kept for six years after the end of the financial year. For the tax year 2020-21, you must retain those records until at least April 2027, after which they can be securely destroyed.

### **What if I paid the expense out of my own pocket?**

If you paid for an essential business expense out of personal funds, you may reimburse yourself at any time from the company's account. The same rules apply: you must be able to justify the expense as having been incurred "wholly and exclusively" as part of your business duties, and you must retain receipts for six years.

### **What if an expense has a personal element to it?**

An expense that has both business and personal elements to it is called a "dual purpose" expense. In most circumstances these expenses cannot be claimed through your business. The exception is where the expense is essential to the running of your business and the personal usage is only an incidental add-on.

An example might be a laptop computer purchased for professional purposes, which you occasionally use to browse Facebook or order groceries on your lunch break.

## **Your complete guide to limited company expenses**

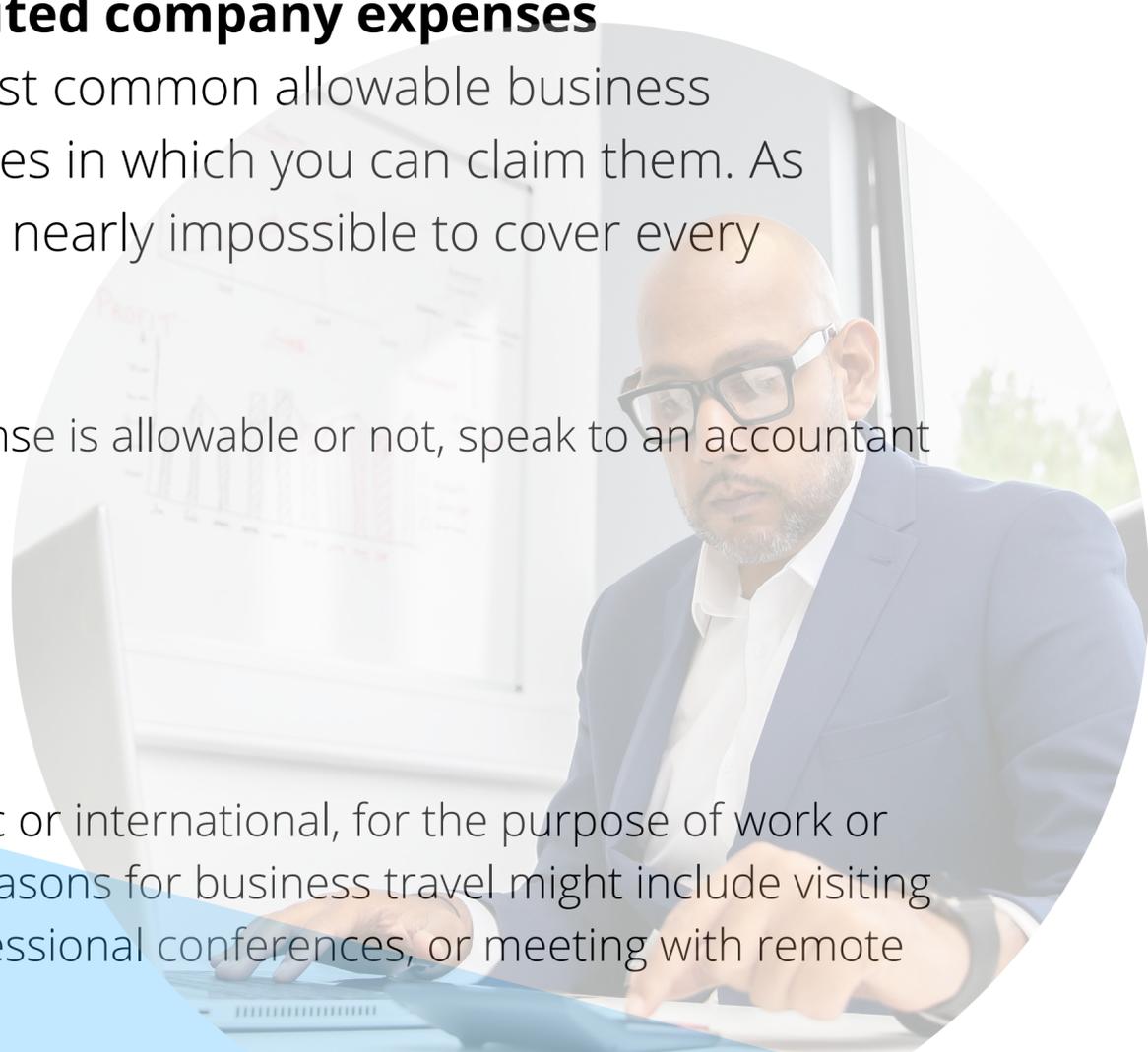
This guide will cover all the most common allowable business expenses and the circumstances in which you can claim them. As every business is different, it is nearly impossible to cover every possible eventuality.

If you are unsure whether an expense is allowable or not, speak to an accountant before you claim.

### **What can you claim?**

#### **Travelling for business**

Business travel is any trip, domestic or international, for the purpose of work or running a business. Examples of reasons for business travel might include visiting clients or suppliers, attending professional conferences, or meeting with remote colleagues.



Business travel is distinct from personal travel (for example, for a holiday or to visit family and friends) and from day-to-day travel such as commuting from home to your place of business. Business travel will often involve an overnight stay, but a day-trip to a destination a significant distance or travelling time from your usual workplace also counts.

In general, any essential expenses incurred in the course of travelling for business - including transport, accommodation, and food - are allowable.

When you travel for business, ensure you keep your business costs separate from any personal expenditure. For example, if you take a business trip and decide to stay an extra day in the destination city to sight-see, you cannot claim any expenses for the leisure part of the trip.

### **Accommodation costs**

You can claim the cost of accommodation, such as a hotel room or rented apartment, during business travel. Costs should be “reasonable.” What this means in practice is that you should choose budget to mid-range accommodation. A reasonably priced hotel room or one-bedroom apartment is appropriate. A bill for a luxury hotel is likely to raise an eyebrow or two at HMRC.

### **Food and subsistence**

You can claim for subsistence (food and drink) when you are travelling away from home or your usual place of business. This includes meals eaten at restaurants, breakfast in hotels, takeaway meals, and groceries if you are staying in self-catering accommodation.

You cannot claim for alcohol unless it is purchased with a meal and in a “reasonable” quantity, such as one glass of wine.

If an employee is travelling with you and you pay for their meal, this is also an allowable expense and the same rules apply.

### **Car, van, and public transit costs**

You can claim tax relief on any transport costs incurred as a result of travelling for business purposes away from your usual workplace. This includes bus and train tickets, flights, parking, and additional expenses such as congestion charges and tolls.

Any class of travel is usually allowable (e.g. a First Class train ticket or Business Class flight) but you should exercise judgement. Most companies have an internal

policy that only journeys over a certain length may be upgraded to First or Business Class.

If you buy a car or van through your business that is exclusively for business purposes, you can claim for the cost of the vehicle as well as fuel, insurance, servicing, road tax and breakdown cover. You cannot claim for personal journeys or any fines you incur. If you buy a vehicle personally, you cannot claim any of the above associated expenses and should follow the mileage claim process outlined below.

You cannot claim travel expenses for your usual commute (journey to or from work.)

### **Mileage allowance**

If you use your own vehicle (car, van, motorcycle, or bicycle) to travel away from your usual place of business for work, you can claim the following mileage allowances:

<b>Vehicle Type</b>	<b>Rate per mile (for first 10,000 miles in each tax year)</b>	<b>Rate per mile (for any miles over 10,000)</b>
Car or van	45p	25p
Motorcycle	24p	24p
Bicycle	20p	20p

So if you drove 150 miles for business purposes, you could claim back £67.50 in mileage allowance assuming you had driven less than 10,000 miles for business in total during that tax year.

You cannot claim mileage allowance for your usual commute.

### **Donations to charity**

If you make donations to charity from your company (as opposed to from personal funds,) you can claim tax relief.

Donations include not only cash gifts but also equipment, stock, land, property, shares in another company (not your own,) sponsorship, and employee time via secondment arrangements.

Gifts to charity only count as a donation for tax purposes if any benefits you get in return are below a specified value:

Donation value	Maximum allowable benefit value
£100 or less	25% of the donation amount
£100 - £1000	£25
£1001 and above	5% of the donation value up to a maximum of £2500.

To claim tax relief on your charitable donations, deduct the value of all allowable donations from your total profits at the end of the tax year. For example, if you made £200,000 profit but donated £20,000, you would pay tax on £180,000.

## Childcare

In the UK, the average cost of sending a child to nursery is £242 per week full time - among the highest in Europe.

The Childcare Voucher scheme was closed in October 2018. If you were already running this scheme or providing directly contracted childcare for employees prior to that date, you may continue doing so and continue claiming the costs in tax relief. However, no new members can join the scheme.

Parents earning less than £100,000 per year (including company directors) should now apply directly to the Government's Tax Free Childcare scheme.

## Entertaining

Entertainment may refer to staff, customers and clients, or business associates, and there are different rules for each.

## Staff parties and events

It is permissible to claim tax deductible expenses for one annual event for staff. In many companies, this would be a Christmas or end-of-year party. The following criteria must be met:

- The event must be open to all staff.
- The event must be primarily attended by employees (though plus-ones, such as partners or family members, are permitted.)
- The total cost including VAT must be no more than £150 per head.

The cost per head is for the total cost of the entire event that is being paid for by the company, including but not limited to food and drink, travel, and accommodation. If the per-head cost exceeds £150, it becomes a taxable Benefit-in-Kind.

## Client and associate entertainment and gifts

In most circumstances, claiming tax deductions for entertainment for clients and business associates is not permitted. This includes meals, drinks, events, and the purchase of gifts. For example, if you meet with a prospective client and buy them dinner, the cost of your meal would be tax-deductible as long as the meeting was a genuine business necessity, but the cost of their meal constitutes entertainment and is not deductible.

If you personally incur the expense you can claim it back from the company, but the company cannot claim tax relief on these costs.

## Staff costs and benefits

Your people are your most important business asset. If you employ staff, their salaries and benefits are likely to be your most significant regular expenses.

### Salary

Salaries paid to employees (including Directors) and National Insurance Contributions are tax-deductible business expenses.

As a Director, you can save money by paying yourself a tax-efficient salary, i.e. one that is below the threshold at which you become liable for National Insurance Contributions. For 2020/21, this threshold is £8788. You can then receive dividends of up to £41,212, allowing you to use your basic 20% tax rate allowance of £50,000. Anything you take home above that amount will be taxable at a higher rate.

### Pensions

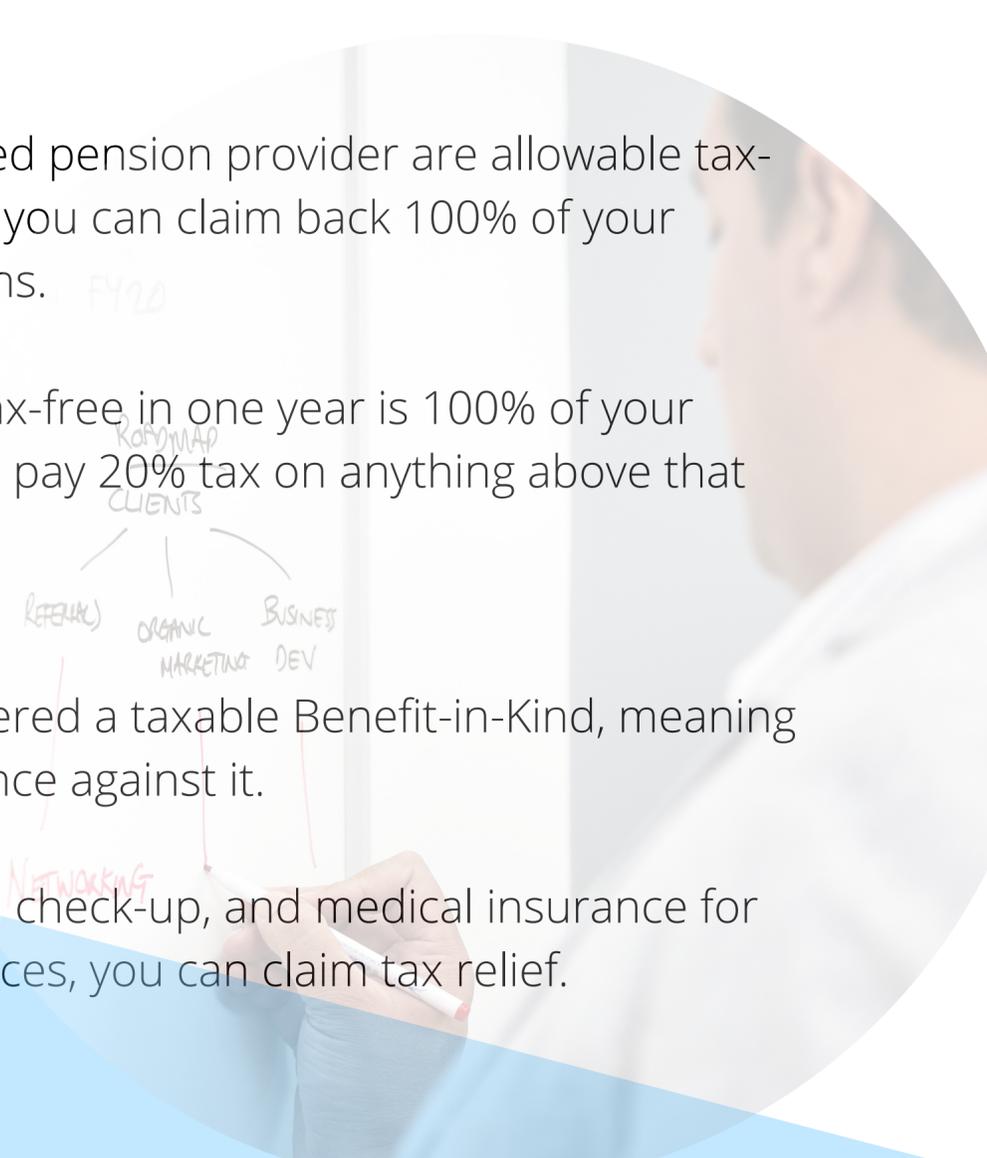
Contributions to a pension with a contracted pension provider are allowable tax-deductible business expenses. This means you can claim back 100% of your employer contributions to any staff pensions.

The most you can pay into a pension pot tax-free in one year is 100% of your salary or £40,000, whichever is lower. You'll pay 20% tax on anything above that amount.

### Medical insurance

Medical insurance for employees is considered a taxable Benefit-in-Kind, meaning recipients must pay 13.8% National Insurance against it.

The exceptions are the costs of one annual check-up, and medical insurance for employees working abroad. In these instances, you can claim tax relief.



## **Eye tests and eyeglasses**

You can only claim for the costs of eye tests, glasses, or contact lenses if the recipient uses a visual display unit (such as a computer) in their work and the eyecare is deemed essential for those duties under the Health and Safety at Work regulations. You cannot claim for glasses or contact lenses that were prescribed prior to employment or for unrelated reasons.

## **Gifts and small benefits**

A gift or “trivial benefit” given to an employee is usually tax deductible providing that it:

- Costs less than £50.
- Is not cash or an equivalent voucher.
- Is not provided as part of the agreed benefits package under their terms of employment (including as part of any salary sacrifice schemes.)
- Does not constitute reward for their work or performance.

An example might be a gift given to an employee to celebrate a special occasion such as a birthday, wedding, or the birth of a child. Another example might be taking your team out to an occasional lunch - as long as the total bill amounts to no more than £50 per head, this would be considered a tax-deductible trivial benefit.

## **Phone services**

A telephone contract, either landline or mobile, that is exclusively for the purposes of business is considered a deductible expense. If this is the case, you can claim 100% of the cost of landline installation, purchasing devices, and ongoing bills.

If you use a personal phone for business calls, you can claim only the cost of those calls and only if you can prove they were for business purposes. In this situation, you cannot claim for any part of the device payments or line rental.

If you have an all-in-one package (such as a specific number of minutes) or other arrangement where it is impossible to separate the business and personal elements, you cannot claim for any part of the cost. Having separate phone lines or mobile devices for business and personal use is the easiest way to keep these expenses differentiated and ensure your tax relief claims are legitimate.

## **Internet**

You can only claim for broadband if the package is exclusively for the purpose of business. If your home is your normal workplace, you cannot claim for your home broadband connection unless it is possible to clearly differentiate business from personal usage. The only way to completely make this distinction is to have two separate lines.

If you have separate business premises such as an office suite, internet services there will be tax deductible.

## **Company formation fees**

Any costs associated with the initial set-up of your business are considered business expenses for the purpose of tax relief. This includes everything from acquiring your premises to purchasing office supplies. It also includes any necessary legal or accountancy fees, as well as costs associated with registering with mandatory professional or regulatory bodies.

## **Accountancy**

If you hire an accountant to manage your company's accounts, you can claim for the full cost of their services as long as they are exclusively working on business matters.

If the accountant spends any time working on your personal matters (such as your own accounts or tax return) this is considered a Benefit-in-Kind (BIK) and is taxable to you personally. The company is also liable to pay National Insurance Contributions (currently 13.8%) on any Benefits-in-Kind.

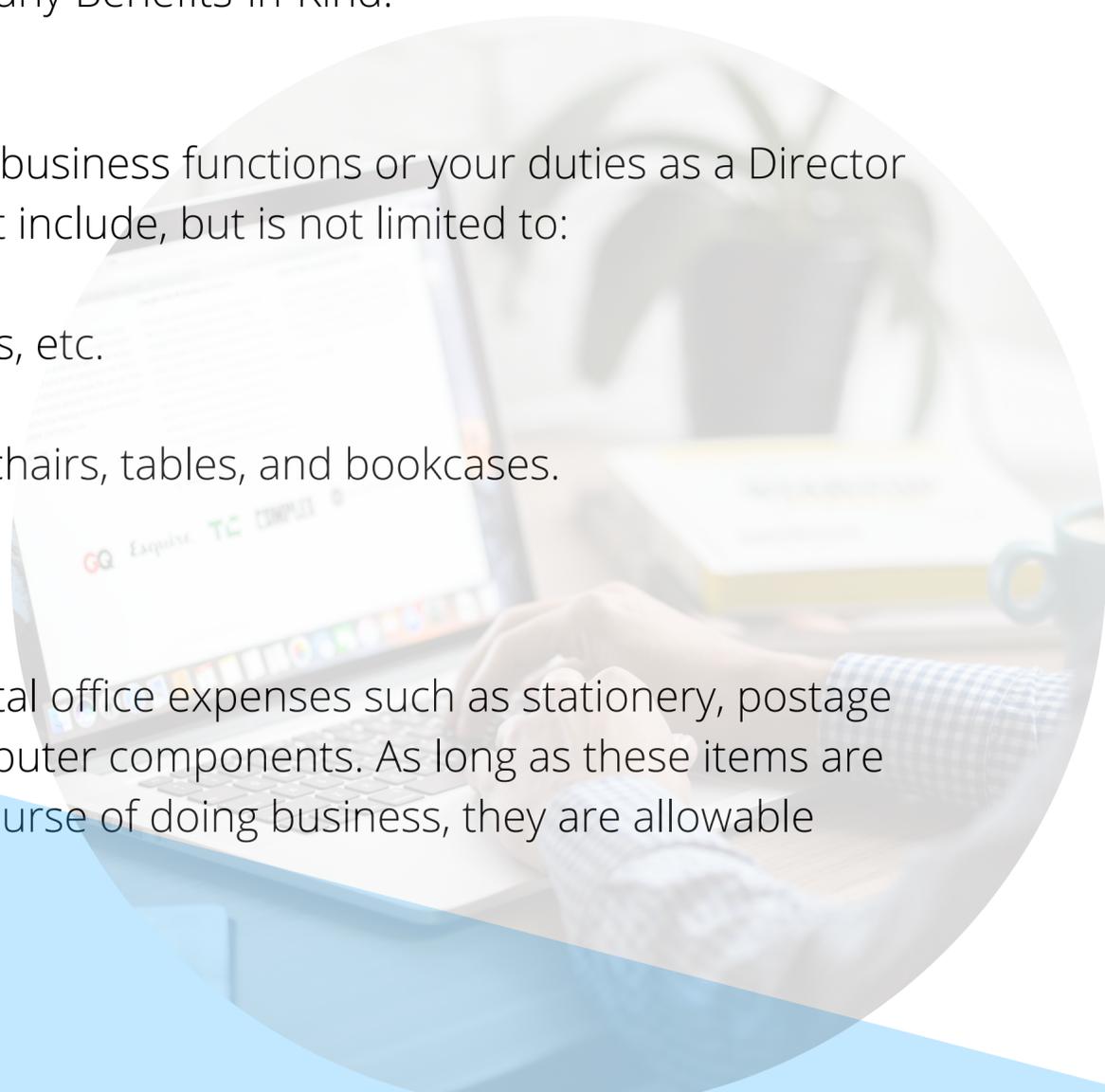
## **Essential equipment**

Any equipment that is required for business functions or your duties as a Director is allowable for tax relief. This might include, but is not limited to:

- Computers, printers, photocopiers, etc.
- Software.
- Office furnishings such as desks, chairs, tables, and bookcases.
- Tools or machinery.

## **Office supplies**

You will likely have ongoing incidental office expenses such as stationery, postage costs, and replacing damaged computer components. As long as these items are necessary and used solely in the course of doing business, they are allowable expenses.



## **Advertising, marketing, and PR**

Marketing and associated activities are essential costs of doing business. Therefore, any marketing, advertising, and PR expenses incurred solely in the course of running your company are allowable for tax relief purposes.

This includes, but is not limited to, hiring a branding agency to do your logo and web design, paying for advertising space in physical and digital media, and printing branded marketing materials.

## **Staff training and development**

You can claim tax relief on expenses incurred in the course of training and development activities for yourself or your staff. This might include attending training courses, conferences, and taking professional qualifications.

There are two important considerations. The training or development activity must:

- Reinforce or build upon existing skills and knowledge, rather than offering new skills.
- Be genuinely relevant to the person's role within the business.

For example, an accountant attending a training course to learn about the impact of a new piece of legislation on their work is likely to be considered a legitimate training expense. A degree course, such as an MBA, is unlikely to be an allowable expense as these courses generally offer substantial new knowledge.

## **Professional memberships and subscriptions**

Membership fees for relevant professional bodies and organisations are usually allowable expenses. The membership need not be mandatory by law, but must be of direct relevance and benefit to the business.

An example would be a Director of a marketing agency joining the Chartered Institute of Marketing.

## **If your home is your office**

Many limited company Directors work from home, especially if they are the only employee of their company.

If you own a limited company and work exclusively or primarily from home, you can automatically claim £6 per week in expenses without keeping any detailed records or claiming it as a Benefit-in-Kind on your personal tax return.

The rules about claiming for equipment (such as a desk or office chair) also apply if your home is your office, but you must be prepared to justify that the expense was necessary for your business.

You cannot claim any kind of fixed costs such as rent, mortgage payments, or council tax. You might be able to claim a portion of bills such as gas, electric, and metered water, but only if you can demonstrate the incremental cost increase incurred as a result of working from home. In most circumstances, the £6 weekly allowable claim will more than offset any incremental bill increase.

### **Renting your home office to your business**

If you own your property and have a personal work space, you may be able to rent it to your company at a cost. You must draw up a rental agreement between yourself and the company which states the terms of the lease, including that it applies only to your office and only to certain times of the day, and the agreed fee to be paid by the company. If in doubt, speak to an accountant or a property solicitor.

Any income you receive from a rental agreement with your company must be declared on your personal tax return.

### **We hope this was helpful!**

Business finances can be complex, but we hope this has taken some of the mystery out of the process for you.

If you need a bit of extra help, we're here for you. Give us a call on 07816 130053 for a no-obligation chat to see how BGS Accounting can support you as you take your business to the next level.

