



LIMITED COMPANY BUSINESS EXPENSES GUIDE



Contents

What are allowable business expenses?	4
Claiming expenses as a limited company	5
How to keep a record of limited company business expenses	5
Office and equipment expenses	6
Office Rent.....	6
Stationery	7
Office Supplies	7
Utilities	7
Computer equipment.....	7
For private and business use.....	7
Private equipment brought into a company	7
Solely for business use.....	7
Second-hand equipment brought into a company	7
Software and Business Apps.....	8
Business use of home	8
Internet Access	8
Telephone and Mobile	9
Home Office Rent	9
Mortgage	9
Council tax.....	10
Utilities	10
Property repairs	10
Car and travel expenses	10
Vehicle.....	10
Parking and tolls	11
Hotel accommodation	11
Travel.....	11
Food and drink.....	11

Cycle travel.....	12
Clothing expenses.....	12
Clothing	12
Evening wear.....	12
Marketing and entertainment expenses	12
Advertising and marketing	13
Entertaining employees	13
Website costs	13
Legal, financial and other costs.....	13
Company Formation	13
Medical treatment	13
Professional fees	14
Bank and other financial charges	14
Business accounts.....	14
Personal accounts	14
Insurance.....	14
Animals.....	14
Childcare	14
Pension contributions	14
Training Courses	15

When you're busy running your business, it can be difficult trying to keep track of what limited company expenses you can claim for tax relief. And this could lead to the company paying too much corporation tax! We don't want that.

So, we've created a dedicated guide for you and other limited companies where we explain common allowable business expenses that are tax deductible.

Please note: Even if you are the only director of a limited company, you and your company are considered separate legal entities. So, if we say that 'the company' can claim tax relief that means it goes in your company's accounts.

If we say that 'you' can claim tax relief that means it goes on your own personal tax return. If we say, 'you can claim from the company', that means the company can pay you back for costs that you incur personally without either of you paying more tax.

These costs are usually allowable for tax deduction in the company's accounts. When we say that something is a 'taxable benefit', it means that even if the company can claim tax relief on the cost by putting it in its accounts, the company and/or the employee may have some additional tax and/or National Insurance to pay on the cost of the item.

What are allowable business expenses?

The number one rule to bear in mind for claiming business expenses is that you can only reclaim expenses that have been incurred "wholly and exclusively" while running your limited company. Furthermore, you can't reclaim expenses that have a "dual purpose", which is the case for business and private expenses where the business proportion cannot be identified. For example, clothing (except for protective wear).

It is advisable to keep all your receipts and invoices in case of a check by HMRC where you may need to prove your claims are justifiable for legitimate business expenses. Not keeping accurate records is one of the biggest accounting mistakes you can make because this is a company obligation. *Tip1 – don't use a shoe box to keep all your receipts in, it'll make your life challenging!*

Allowable expenses can significantly reduce the company's Corporation Tax liability so to avoid overpaying and lose out on company profits it's important to know what's allowed and what's not.

Claiming expenses as a limited company

You can either pay your company's expenses directly from the company business bank account or as a 'reimbursed expense' when paid by you personally. It is important to remember to keep an accurate record any time you reimburse yourself from the company funds.

If you run a small business, your employees can also claim expenses, so it's good practice to have a company expense form and policies – i.e. how much employees are allowed to spend and in what situations – and collect and file all the expense claims at the end of each month. Here, it is also important to stress that your employees must keep all receipts to be able to reclaim any expenditures.

How to keep a record of limited company business expenses

Keeping track of your limited company business expenses such as business mileage is essential, as, without the breakdown of journeys and mileage covered, HMRC could refuse to accept your claim.

We suggest detailing all your business mileage on a spreadsheet and keeping it up to date throughout the year. If you're claiming tax relief for fuel when using a company-owned car, you must keep hold of all of your receipts.

For other business expenses, the cost of anything that's necessary for running your limited company will receive tax relief – the trick is to make sure you meticulously record everything, so you don't lose out. You're not limited to a certain number of supplies, within reason.

If you're not using online accounting software (*Tip 2 - you should be - we've even got free software that lets you do this for your limited company*) the best way to keep track of what you've spent on supplies and other expenses such as travel and subsistence is, again, in a spreadsheet. The main difference is you don't have to record each item separately – for example, if you have bought 10 packs of 100 pens

at £3 each, you can record it as 1000 pence – £30. It is, however, important to keep the receipts for every separate purchase. Receipts must be kept for six years after you have filed your returns, as HMRC could decide to investigate at any point within this time.

If you're just away for the day, you can claim lunch costs if you exceed five working hours, this extends to dinner if you're working up to ten hours. As always, ensure that you keep receipts for everything. It's also advisable to log all expenses in your accounting software, or on a spreadsheet so that you always have the date and exact costs at hand in case HMRC decide to take a closer look. Also be aware that HMRC take a dim view of excessive use of taxis, particularly if they appear unnecessary – i.e. it was a very short journey.

Storing receipts can be done in a variety of ways and it's always best practice to keep the paper copies somewhere safe, as well as backing them up digitally – with a picture on your phone for example (receipts tend to fade, but digital backups will remain pristine forever).

Office and equipment expenses

Here are some of the office costs that you may incur and be able to claim as tax deductible expenses.

Office Rent

If you're a contractor or otherwise working from home, and are the company's only member of staff, you can claim a proportion of your rent back from the company. However, you need to draw up a rental agreement between you and the company, because the company is a separate legal entity that's renting a room from you.

You should include this rent as rental income on your own tax return, but this will be equal to the costs that you've incurred so there'll be no additional tax to pay.

If you are not the only member of staff, the costs you can claim become more complex, so you should check with us about this.

If the company rents an office that it uses just for business, it can claim the full cost of that rent. The exception is a rent deposit, which goes on the company's balance sheet and isn't available for tax relief.

Stationery

If you pay for stationery yourself that you and your colleagues will use at work, the company can pay you back for this without HMRC considering this a taxable benefit. The company can also include this cost in its accounts.

Office Supplies

Any costs incurred in the daily office use such as pens, paper, printer cartridges or ink, clips, staples, USB keys, record keeping supplies and sales receipt pads.

Utilities

The cost of heating, lighting and water are fully tax deductible.

Computer equipment

For private and business use

If the company gives your computer equipment that you can use for business and also more than an 'insignificant' amount of private use, it will have to pay extra National Insurance as this is considered a taxable benefit.

Private equipment brought into a company

If you already own equipment and want to bring it into your business, you can claim tax relief on the value, but it is a limited amount of relief and based on the market value at the date of transfer. Remember that if you are going to carry on using the equipment privately too, HMRC would consider this as a taxable benefit.

Solely for business use

If the company gives your computer equipment that you use solely for business and no more than an 'insignificant' amount of private use, the company can claim business expenses for this cost and does not need to pay any tax or National Insurance, as HMRC do not consider this to be a taxable benefit.

Second-hand equipment brought into a company

If the company buys a piece of equipment second-hand, it can still claim tax relief on that equipment as a capital asset at the cost it bought it for because it's new to the

company. Don't forget that unless you have a VAT receipt, the company can't reclaim VAT on it.

Software and Business Apps

All the computer software and business apps that your business uses for less than two years or for which it makes regular payments to renew the license (even if used for more than two years) are claimable expenses.

Some examples include cloud accounting software, file sharing services like Dropbox (only if used for business purposes) or other productivity apps for which you pay a monthly subscription.

In some cases, depending on your company activities, if your business requires very expensive software it plans to use for more than two years then you may need to claim as capital allowances.

Business use of home

Run your business from home? Well, here are some of the costs you might incur that you may be able to claim as a business expense.

Internet Access

If you work from home as a one-person business and don't have a separate broadband contract for your business, you can claim back from the company the full cost of all of your business use of your home internet access and a percentage of the line rental.

If you pay a fixed fee for your internet connection, you should claim the business percentage of your usage of broadband. To calculate the percentage that you can claim, work out how much you use it for business purposes and how much is for personal use.

Make sure that the company doesn't pay your home broadband bill directly to the phone company because this is a benefit that has to be taxed with your salary.

You should pay the broadband bill personally, then claim the business use of the line back from the company.

If you have a separate broadband contract for business, make sure you put the contract in the company's name. The company should pay this cost directly to the

telephone company. The company can claim the full cost of the broadband line rental and the business use of the broadband.

Telephone and Mobile

If you are the company's only member of staff and don't have a separate phone line for business, you can claim from the company the full cost of all of your business use of your home phone line or mobile phone, and a percentage of the line rental, based on how much you use it for business and how much is for personal use.

Make sure that the company doesn't pay the phone bill directly to the phone company because this will count as a benefit that has to be taxed with your salary. You should pay the phone bill personally, then claim the business use of the phone back from the company.

If you are not the only member of staff, the costs you can claim become more complicated so you should check with us about this.

If you have a separate mobile phone for business, make sure it is in the company's name. The company should pay this cost directly to the service provider. The company can claim an expense on the full cost of the line rental and the business calls.

Home Office Rent

You can claim a proportion of your rent back from the company if you are the sole member of staff, but you also need to draw up a rental agreement between you and the business. We can help you with this if you feel you need assistance.

You should include this rent as rental income on your own tax return, but this will be equal to the costs that you've incurred so there'll be no extra tax to pay.

If you are not the only member of staff, the costs you can claim become more complex, so you should check with us first.

Mortgage

Again, if you are the company's only member of staff, you may be able to claim from the company a proportion of the interest that you pay, but not the capital repayment. If you are not the only staff member, the costs you can claim become more complex, so you should check with us about this.

Council tax

Claiming council tax may be possible but check with us first.

Utilities

If you are the company's only member of staff, you can claim back from the company a percentage of your household gas and electricity costs, based on how much you use your home for business and how much for non-business. If you are not the only staff member, the costs you can claim become more complex, so you should contact us about this.

If you use a lot of your home water supply for business then you would need to apply to the water company for this to be separately charged and put in the company's name. The company could then claim expenses on the full cost of the water. If your business use of water is only minor, you can't claim any of the cost from the company.

Property repairs

You may be able to claim some repair costs from the company if you are the only staff member. If a property repair relates solely to the part that's used for business, you would include this cost in the company's accounts in full, subject to the business use of that room.

Car and travel expenses

There are a number of expenses that you can claim when travelling for work purposes, by car or otherwise, so here's a breakdown.

Vehicle

If you travel on business for the company in your own car, the company can pay you back according to your business mileage at HMRC's approved rates. However, you must keep a detailed mileage log.

If you travel on business for the company in your own car, the company can pay you back according to your business mileage at HMRC's approved rates. However, you must keep a detailed mileage log. For stress free and accurate mileage tracking you can try the MileIQ app.

Parking and tolls

If you personally pay for car parking and tolls while travelling on business, you can claim the full cost back from the company, and the company can include this cost in their accounts because they are an allowable expense. Even if you are claiming the cost per mile of journeys in your own car from the company, this does not stop you also claiming back from the company the costs of car parking and tolls that you paid for yourself.

Hotel accommodation

The company can only pay you back for accommodation costs that you've personally paid for without HMRC considering this a taxable benefit in these three cases:

- If you were staying away from home for business purposes,
- If you were attending a business appointment, or
- If you were at a temporary workplace, meaning somewhere you expect to be working for less than 40% of your time for the next 24 months.

Remember, the company can't reimburse you for the cost of hotel accommodation that you pay for personally if you stay overnight near your permanent workplace. If they do, you'll need to pay tax and National Insurance on the repayment as it will be considered a taxable benefit.

Travel

The company can only pay you back for travel costs that you've paid for personally if it is a business journey. To be considered a business journey it must fulfil these criteria:

- The journey was between business appointments, or
- If you were travelling to or from a temporary workplace, again meaning somewhere you expect to be working for less than 40% of your time for the next 24 months.

Travelling from your home to a permanent workplace doesn't count as business travel, so your employer can't pay you back for the cost of these journeys.

Food and drink

The company can provide food and drink such as tea, coffee and biscuits. The company can also provide free meals at a canteen without having to pay extra tax and National Insurance, so long as the food and drink provided is available to all employees.

If you pay for food and drink yourself when you are away from your normal place of work on a business trip, you can claim that cost back from the company. The company can also include this cost in its accounts as a business expense.

Cycle travel

If you travel for work on a bicycle that belongs to you personally, the usual rules for whether the journey counts for business apply. And if your journey does qualify as a business journey, you can claim that expense from the company at a cost of 20p per mile. Also remember that the company can also provide you with a bicycle under the Cycle to Work scheme.

Clothing expenses

Normally, claiming for any clothing that could be part of an everyday wardrobe is not allowable – so if you have to buy heels for work but they could be worn outside of work then you cannot claim for the cost of the shoes. So what can you claim for?

Clothing

The company can provide you with protective clothing that's necessary for you to do your job, such as a high-visibility jacket, or with a uniform that can only be worn at work to do your job, including clothing such as a t-shirt with the company logo on it.

The company can give these clothes to you outright or make them available to you, and although the company has to report these to HMRC on form P11D there's no extra tax for you or for the company to pay. If the limited company provides you with other clothing, this may be a taxable benefit.

Evening wear

If you have to wear evening dress for your work and the company provides this for you, the company can include the cost in its accounts for tax purposes and should report this to HMRC on your form P11D.

Marketing and entertainment expenses

You can claim business expenses on advertising and marketing costs for your business. But maybe not on everything you'd expect, so here's what you can claim for.

Advertising and marketing

The company can claim on advertising and marketing costs for the business.

However, some costs may not be allowed by HMRC, such as taking a client out to lunch.

Entertaining employees

When you're entertaining your employees, this may be allowable for tax purposes. In order to qualify it must meet three criteria:

- It is an annual event (such as a Christmas party)
- It is open to all team members, and
- It costs less than £150 per guest

If any of these three conditions aren't met, then the whole cost of the event becomes a taxable benefit.

Unfortunately, you can't claim any deductions for entertaining clients – there is no relief available on the cost of entertaining anyone other than employees.

Website costs

The company may be able to claim expenses on the cost of building, hosting and maintaining a website if you think that the website will earn the company more money than it cost to build it. There aren't really any strict rules around this.

Legal, financial and other costs

There are a number of fees, charges and other costs that can count as business expenses.

Company Formation

There are some tax planning opportunities that are only available when a company is formed. Consult with us to see if they are relevant to you.

Medical treatment

A company can, in certain cases, provide medical treatment for its employees without HMRC considering it as a taxable benefit. For example, the employer paying for a legally required eye test for an employee who has to use a computer. We can give you a complete breakdown of what is allowed if you'd like to learn more.

Professional fees

The company can claim the full cost of professional fees incurred for the business, except in specific circumstances.

For example, the legal costs or legal expenses incurred for business counsel are an allowable business expenses.

Accountancy fees to prepare your corporation tax return is another allowable company expense.

Bank and other financial charges

Business accounts

If the company has a business bank account in its own name, it can claim on the interest payments and bank charges.

Personal accounts

Personal accounts charges and interest on a personal credit card or bank account aren't allowable because they are considered a personal expense and so shouldn't be included in the company's accounts.

Insurance

The cost of business insurance, such as employer's liability insurance, is a tax-deductible expense. The company can buy private medical insurance for its staff but in some circumstances, this will incur additional National Insurance. Vehicle insurance on a company owned car is also a deductible expense.

Animals

The company may be able to claim expenses on the costs associated with some animals.

Childcare

The company may be able to claim for the cost of providing childcare facilities, or for funding the childcare costs for its employees' children.

Pension contributions

When the company makes contributions to its own pension scheme for employees, it can claim on the cost of these contributions in its accounts.

Training Courses

Training courses and their related costs (such as books) are allowable expenses as long as they directly relate to your line of work and the income generated for the business.

They must be wholly for business purposes. For example, if you're running an IT firm and would like to offer your employees the necessary training to pursue a certain certification that can help you win more contracts or improve service delivery then those costs are fully tax deductible.



About SME Centre of Excellence:

Here at the SME Centre of Excellence, we work with experienced accountants that can remove the pain of all your accounting challenges – from simple self-assessment through to full company services.

Connect with us to talk about how we can support you to become fully compliant, allow you to concentrate on growing your business and reduce the stress and worry of the complex world of accounting.

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