



GUIDE TO EXPENSES

A close-up photograph of a payroll slip with a green header. The slip lists various expense categories and their corresponding amounts. The text is slightly blurred but legible.

Year To Date	Amount
Total Gross Pay TD	12824.50
Gross for Tax TD	12824.50
Tax paid TD	2880.90
Earnings For NI TD	8712.10
National Insurance TD	
Pension TD (Inc AVC)	

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What Expenses Can I Claim?

By claiming all the appropriate allowances and exemptions you can minimise your tax bill however, this is not a way of avoiding paying tax. The rule for claiming expenses is “that an employee or office holder may deduct expenses incurred wholly, exclusively and necessarily in performing their duties”.

This guide helps to explain what expenses are and what you are entitled to claim. Bob Jones, an ex-compliance officer for HMRC has very kindly verified the information in this guide for your peace of mind.

If you have any questions about the information contained in this guide please contact a member of our team on 0845 367 0220 or email us at info@4payltd.co.uk

Different Types of Expenses

There are two types of expenses – chargeable and non-chargeable. Chargeable expenses are any costs that the agency/client has agreed to reimburse to you. Chargeable expenses will usually be invoiced through your Umbrella Company and will require an expense form, signed by the client, to support the claim.

Non-chargeable expenses are the out of pocket costs that you have incurred as a direct result of the contract. These costs will need to be relayed to your Umbrella Company so they can be processed as a tax benefit when you are paid.

How Do Expenses Work?

Your non-chargeable expenses are processed as a tax benefit and help reduce your tax liability. As an example, if you have £1000.00 gross and £200.00 expenses, your taxable income would be £800.00. You do not receive the full value of your non-chargeable expenses back as many first time contractors believe. They are offset against your taxable pay and you receive part of the cost back, according to the tax rate applied to your income.

Your chargeable expenses are added to your invoice value and are reimbursed by your agency/client. You therefore receive the full value of the expense back.

Brief Summary of Allowable Expenses

Below is a list of the most common expenses that you are entitled to claim. These will be covered in greater detail later on in the guide:

- Travel
- Secondary accommodation costs
- Additional meal costs
- Personal Incidental Expenses (PIEs)
- Protective Clothing
- Training
- Eye Tests
- Professional Subscriptions
- Equipment
- Insurances
- Working from home
- Pension Contributions
- Charitable donations

Do I Need Receipts?

It is incredibly important that you retain receipts for everything that you claim. If HMRC decide to investigate you, they would want to see evidence that you have incurred the costs that you have claimed.

How Long Do I Need to Keep Receipts?

The HMRC investigation window is 6 years so your accounts could be looked into at any point within this timeframe. You must therefore keep all relevant paperwork safe for at least 6 years after the 31st January deadline of the tax year in question.

What Happens if I Don't Have Receipts?

If you are investigated and you do not have receipts to support your claims, you will find yourself in a lot of trouble. You would be made to pay back any underpaid tax, a fine of similar value and interest for the time you have held onto the additional funds. Worst-case scenario - you could be prosecuted for tax evasion!

When Can't I Claim Expenses?

A workplace is deemed as a temporary site providing your attendance lasts no longer than 24 months. After 24 months a workplace is viewed more as a permanent site, and if you spend 40% or more of your time at the same site, you are no longer able to claim travel between home and that place or accommodation expenses.

If you have secured a contract between two permanent roles i.e. a permanent role has already been sourced or the contract is a secondary income, expense claims for travel and subsistence are not permitted. Travel and subsistence claims are only permitted when you are working at a temporary location; a single contract, however short term, would be classified as a permanent location.

What Expenses Can I Claim?

Travel

You can claim the cost of travel to and from your temporary place of work. Mileage rates are 40p per mile for the first 10,000 miles in any fiscal year and then 25p per mile thereafter. This allowance is to cover fuel and running costs of the vehicle e.g. road tax, insurance, servicing and depreciation, therefore additional claims for maintenance, repair and loan interest are not permitted.

If you are charging mileage to the agency/client, you can also claim the difference between the agreed amount and the 40p per mile allowance. For example if you are charging 25p per mile you can also claim 15p per mile as non-chargeable mileage. If you are traveling to work as a passenger in a car you are entitled to claim 5p per mile.

You can also claim for parking, toll and congestion charges but you may not claim for parking / speeding fines.

The cost of travel by public transport can be claimed but you must have a valid receipt or ticket. If you choose to pay extra and travel by first class, you can still claim the full cost of the ticket.

A mileage allowance can also be claimed for travel by motorcycle and bicycle at rates of 24p per mile and 20p per mile respectively.

The cost of car hire can be claimed as an expense, as well as the mileage covered in it. You would however need to keep all the relevant paperwork to prove the cost was incurred should it be required.

Travel to an interview cannot be claimed. The contract must have been secured and started for you to be able to begin claiming expenses. If, however, the contract stipulates that you must attend a training course before the start of the contract, you could claim your travel costs.

Secondary Accommodation Costs

The receipted cost of hotel or bed and breakfast accommodation can be claimed as an expense, if you are living too far away from the client site to travel from home each day. In the same way as first class travel, if you choose to stay in 5 star accommodation, you can still claim the full cost of the bill.

If you are renting a secondary property, so you are closer to the client's site, you can claim the rental costs as an expense. If you are renting out your primary residence whilst on contract, the rented property isn't a secondary cost and therefore can't be claimed as an expense.

You can also claim secondary utility bills from the rented property. The council tax bill, for example is classed as a secondary cost because you would have to pay this on both properties.

Your electricity/gas/water bill would only be classed as a secondary cost if your family remains in your primary residence whilst you are staying in the rented property. If your primary residence remains empty whilst you are in the rented property, your gas/electricity/water costs from the rented property wouldn't be classed as secondary costs.

Other utility bills such as television license, contents insurance etc cannot be claimed as an expense because it would be your personal choice to spend out on these items.

Reasonable contributions for staying with friends or family can be claimed. You would however be expected to prove you have actually incurred these costs so it is advisable to ask for receipts. Please be aware that your friends or family could potentially be liable for tax on these contributions if HMRC investigate your accounts.

Additional Meal Costs

The reasonable cost of additional meals incurred in conjunction with the hotel or B&B bill can be claimed as an expense. If breakfast and/or dinner is not included on the accommodation bill, you can claim the receipted costs for these meals.

If you are staying in rented accommodation, you cannot claim for meal costs. It is HMRC's belief that you can shop, prepare and cook your meal as though you were at home – these are therefore not additional costs and can't be claimed.

If you are working on detached duty, away from your normal place of work, it would not be unreasonable to claim the cost of a meal as this would be classed as an additional expense.

Similarly if you are working extended hours e.g. you are contracted for 8 hours per day and circumstances mean that you work for 12 hours, it would not be unreasonable to claim the cost of an evening meal as an expense. However, if you are contracted to work 12 hours per day and work only those hours the cost of meals would not be allowable.

Entertainment costs cannot be claimed for taking clients or potential clients out to dinner.

Personal Incidental Expenses (PIEs)

You are entitled to claim £5.00 for each night spent away from home during the course of the contract. £10.00 per night can be claimed if you are working overseas. We would still recommend keeping receipts for PIEs just to be safe.

Protective Clothing

The cost of protective clothing that is worn to protect your everyday clothes can be claimed as an expense. Clothing required for the performance of your contract, that could not reasonably be worn outside of work can also be claimed. You cannot claim for ordinary clothing which would form part of an 'every day' wardrobe even if you would not be likely to wear your working clothes anywhere other than at work. You also cannot claim for the costs dry-cleaning or alterations.

Training

According to Inland Revenue legislation an expense cannot be deducted under the general rule for employees' expenses in Section 336 ITEPA 2003 unless it is incurred "in the performance of the duties of the office or employment". This means that the training course must be wholly and totally relevant to the performance of your duties under your existing contract. It is not enough for the expense to be relevant to the job, or to be incurred in connection with the duties of the job.

Eye Tests

If you are required to use a computer as part of your everyday duties you can claim the cost of an eye test. If it can be proven that you also will need glasses or contact lenses purely for the work undertaken at the computer then this cost can also be claimed.

Professional Subscriptions

The Inland Revenue will permit you to claim, as an expense, the cost of fees and subscriptions paid to professional bodies or learned societies.

Equipment

Claims for equipment must be supported by evidence that they are specifically required for your current contract and that the equipment is wholly necessary for you to perform the assignment. Any general pieces of equipment for your role as a contractor or 'nice to haves' are not permitted by HMRC.

Working from home

Before a deduction can be permitted for working from home, it must be demonstrated that the expense has been incurred wholly, exclusively and necessarily in the performance of your duties.

These conditions are met where the following circumstances apply:

- The duties that are performed at home are substantive duties of the role. "Substantive duties" are where there is an objective requirement for you to work from home i.e. it's not your choice.
- Those duties cannot be performed without the use of appropriate facilities.
- No such facilities are available on the client's premises (or the nature of the role means that you live so far away from the client's site that it is unreasonable to expect you to travel on a daily basis)
- At no time either before or after the contract is drawn up are you able to choose between working at the client's site or elsewhere.

You are however only entitled to claim working from home expenses if that part of your home is solely used for business purposes. If the part of your home used for business purposes is simultaneously used for non-business purposes, no allowance is permitted.

If the conditions set-out above are met, an allowance is permitted to be claimed for the identifiable part of the expense that is incurred as a result of the contract.

To calculate the portion of the bill that can be claimed, multiply the total cost of the bill by the number of rooms used for work purposes divided by the total number of rooms that could be used as a workspace e.g. £50 bill, 2 rooms used for work purposes and 5 rooms in total. 2 divided by 5 gives 40%, which means that you can claim £20.00. To complicate matters further you will also need to factor time spent in the office space into the equation. If you only work from home for 2 days per week, in the above example, the £20 would need to be divided by 7 and then multiplied by 2.

Examples of household bills that may apply:

- Domestic insurance policy
- Council Tax bill
- Mortgage interest or rent
- Repairs & maintenance
- Heat, light and power bills
- Phone line & broadband
- Cleaning

Umbrella Company Fees

These will usually be processed as a tax benefit automatically so you do not need to claim these.

Summary

It is important to remember that claiming for expenses that you have not incurred would be viewed by the Inland Revenue as tax evasion.

Please remember that expenses are not a way to avoid tax and **everything** you claim **must** be supported by receipts. At 4Pay Ltd, all your expense claims will be checked and anything that would not be permitted by the Inland Revenue will be automatically disallowed. If you are not sure whether something would be allowable please check with your Account Manager before submitting the expense claim.

If you have any further questions about expenses, please do not hesitate to contact a member of our team on 0845 367 0220 or email us at info@4payltd.co.uk



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