

2021/22 edition



Allowable Business Expenses for Limited Companies

A Guide to Common Buiness Costs and Expenses





Limited Company Allowable Business Expenses

When you are busy running a business, it can be difficult trying to keep track of what business costs and expenses you can claim for tax relief. This means there are often expenses that go unclaimed, which could result in you paying more tax than you need to.

So we've put together this guide to help you make the most of the tax relief available to you. Claiming business expenses is a simple way to keep your business tax efficient; it reduces your profit which in turn reduces your Corporation Tax liability and payments. By claiming every allowable expense, you won't pay a penny more in tax than you legally have to.

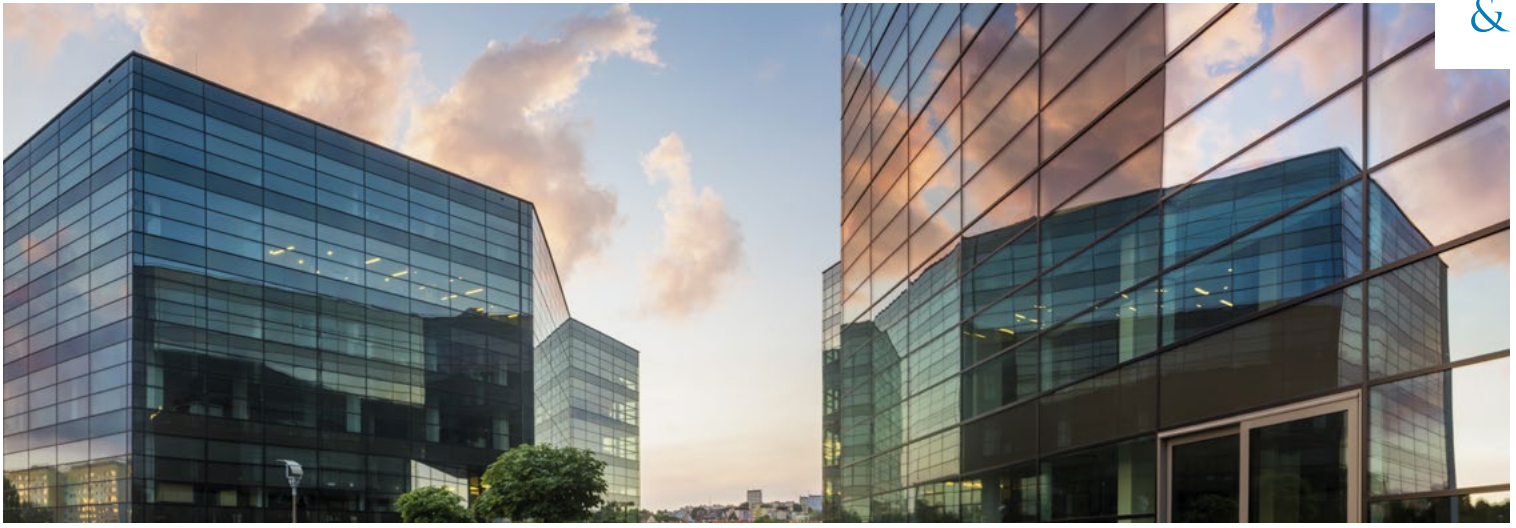
The general rule is that expenses must be "wholly, exclusively and necessary" for business purposes. However, HMRC rules can be complicated and are often based on concepts such as the 'fairness' and 'reasonableness' of expenses claimed. In this guide, we'll be running down all the main types of HMRC approved business expenses you can claim as a limited company for tax purposes.

If you need help with your limited company accounts or in claiming your expenses, you can get in touch with our team and we'll be happy to help.

Claiming expenses as a limited company

It's good practice to pay your company's expenses directly from the company business bank account. You can pay a business expense from your personal account, though this would be classed as a 'reimbursed expense' and you must 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 savvy to have a company expense form and policies to collect and file all the expense claims at the end of each month. It's important that your employees keep all their receipts to be able to reclaim any expenditures.



Office and equipment

Landline and mobile phone

If your landline phone contract is only for business use, this is an allowable company expense and you won't be taxed personally. By having a separate business phone line, it shows this is 100% for business.

For mobile phones, provided the contract is between the company and the mobile phone provider, the company can claim all costs as an allowable expense.

If your company pays your entire personal phone bill, you'll have to pay a 'benefit in kind' charge on the total amount of the bill, and your company will pay National Insurance contributions at 13.8% (for the 2021/22 tax year) on the same amount, minus the cost of any business calls.

If you make a claim for business only calls made on your personal mobile or landline phone bill, this is an allowable expense provided you can prove it was a business call. If you're VAT registered, you can also reclaim the VAT element of the business calls. However, you won't be able to reclaim any part of the line rental, as you would incur this cost anyway.

If you can't separate the business element from your personal use of your mobile phone, you cannot make a claim, due to the duality of purpose rules, as any business calls you make incur no extra cost on top of the tariff you already pay for personal calls.

Broadband

If you start to use your home broadband to carry out work duties, you cannot make a claim if the broadband was already in place, unless you can clearly split the business

from the personal element. Having two broadband lines could show that one line is solely for business.

If you have no broadband contract at home and need internet access to carry out your business, the costs can be reclaimed from your company, and no 'benefit in kind' charge arises.

General office costs and purchases for your limited company

Minor purchases with receipts that are used wholly, exclusively and necessarily in the performance of your duties are claimable. This includes postage, computer consumables, and office stationery.

Fixed assets and disposal of fixed assets

As long as they're purchased entirely for business use, items such as laptops, business phones and furniture can be recorded as a business fixed asset. If the asset is obsolete or no longer used by your business, you may decide to dispose of it.

Whether you continue to use a fixed asset, sell old models or scrap them, HMRC will need to know in order to ensure it's correctly accounted for each year.



Working from home

Use of your home as an office

Working through a limited company means if you work from home, HMRC allows you to claim £6 each week without keeping any detailed records – this equates to £312 per year. HMRC doesn't believe this to be a benefit in kind, which means you won't have any tax to pay on this through your Self Assessment.

It's important to remember that you must be able to prove that you regularly spend time doing your job in this office space; you can't just use your home office for small admin tasks while most of your work is done at your main office.

Equipment that is necessary for your professional duties will receive tax relief. You may also claim reasonable relief towards the cost of equipping and furnishing an office, such as office chairs.

Renting your office to your business

You might be able to rent your personal workspace in your home to your limited company and claim that as an expense. You'll need to declare these earnings on your Self Assessment, so they'll be subject to further taxes after you've deducted your expenses. HMRC requires you to:

- own the property.
- make sure any amount over £208 per annum is classified as rental expenses.
- create a rental agreement between yourself and your limited company.

- make sure that the rental agreement states that the rent is specifically for use of the office at certain times of the day, and nowhere else within your house is used.
- make sure the rent you set is reasonable.

HMRC rules are complex in this area and they expect any calculation to be 'fair and reasonable'. You should speak to us before preparing a rental agreement between you and your company.



Travel

Business mileage expenses

If you've used your personal car or van to get to a temporary place of work and paid for the fuel personally, you're entitled to get this back from your company. You can even claim mileage expenses if you ride a bike. But no matter how you travel you cannot claim for miles commuting to your normal workplace. If you use your personal vehicle for business travel to a temporary workplace you can claim the following rates:

Vehicle	Rate Per Mile (On first 10,000 miles in tax year)	Rate Per Mile (On each mile over 10,000 miles)
Cars and vans	45p	25p
Motorbikes	24p	24p
Bicycle	20p	20p

The great thing about this is that not only does the business expense reduce your overall Corporation Tax bill, it also means you can reimburse yourself the amount claimed. However, if your company owns the car, you can only claim the cost of the fuel.

Car, van and travel expenses

Your travel expenses are generally tax-deductible where all the following conditions apply:

1. You are responsible for paying the travel costs
2. The travel you are undertaking is necessary for your work

3. The travel should not be 'ordinary commuting'. HMRC defines a commute as the journey you make between your home and permanent workplace.

You can claim allowable business expenses for: vehicle insurance, repairs and servicing, fuel, parking, hire charges vehicle licence fees, breakdown cover, train, bus, air and taxi fares, hotel rooms, and meals on overnight business trips.

Fines

Neither you nor the company can claim tax relief on the cost of fines or speeding tickets, even if you incurred these while travelling on business, because you incurred the cost while breaking the law, sorry!

Travel and subsistence

If you have to travel for your work you may be able to claim tax relief on the money you've spent on food or overnight expenses. You can claim tax relief for money you've spent on things like: public transport, hotel accommodation, food and drink, congestion charges, and parking fees. However, you can't claim for travelling to and from work, unless you're travelling to a temporary place of work.

Accommodation costs and expenses whilst on business travel

You can claim expenses for accommodation costs when you travel to a temporary workspace or location for business-related purposes, providing the expense is reasonable and not excessive. HMRC will likely question any excessive claims for expensive hotels or fancy apartments.



Legal, financial, health and other costs

Accountancy fees

You can claim tax relief for the full cost of your limited company's accountancy fees, providing the accountants' time is spent working entirely on your company's affairs. If the accountant provides advice or spends time working on your personal affairs (such as preparing your personal tax return) this can be included in your limited company accounts but will be taxable to you personally, and needs to be recorded as a benefit in kind. In addition, your company will pay National Insurance Contributions at 13.8% on the benefit in kind (for the 2021/22 tax year).

Bank, credit card and other financial charges

Many types of bank charges can be claimed as an allowable business expense, though they must be for accounts or cards in the name of the business. You can claim business costs for:

- bank, overdraft and credit card charges the interest on business and bank loans (but not repayments of the capital or loan amount).
- hire purchase interest.
- leasing payments.

You cannot claim for repayments of personal loans, overdrafts or finance arrangements.

Business Insurance policies

You can claim for any insurance policy for your business, for example, professional indemnity insurance.

Charitable donations

Your limited company pays less Corporation Tax when it gives money, equipment, land, property, shares in another company or sponsorship payments to charity.

Childcare costs and expenses

HMRC does not allow childcare as a legitimate business expense, however, limited company directors and employees can claim tax relief through their salary payments up to a certain amount each month with one of two approved schemes.

Voucher Scheme

The Childcare Voucher scheme was withdrawn by the government on 4 October 2018 and is closed to new entrants. If you were set up on the Childcare Voucher Scheme before this date you may continue to use the scheme.

Tax-Free Childcare scheme

In 2017, the government rolled out a new Tax-Free Childcare scheme for parents and carers. It's important to remember that your limited company cannot provide an employee with childcare using both schemes at the same time, it's one or the other.

Eye tests and glasses

You can claim for eye tests providing it's necessary for the initial or continued use of visual display equipment in your duties. However, you aren't able to claim for glasses or contact lenses unless they're prescribed during your time at work, specifically for work that involves a monitor or screen.

Health insurance

Your company may provide financial support towards health insurance for employees. This is regarded as a benefit in kind and the employee must pay personal tax on it.

Your company can provide and claim tax relief on: medical insurance for an employee working abroad, and an annual health check-up.

Training expenses

You can claim for training courses that are aimed at improving the skills you use in your work. HMRC often disallow expenses for courses such as MBAs, as they offer new skills and knowledge rather than building on existing skills. In certain situations, they are allowed, but only if you demonstrate that they are improving your existing knowledge and skills.

Professional subscriptions

Professional subscriptions such as membership of a trade body or registrations needed in order to enable you to trade are allowable, provided they are HMRC-approved professional bodies that are relevant to your employment. If it is not directly relevant, then it's not allowed.

Salaries

A salary paid to you as an employee or as the director of your company is regarded as an allowable expense, as are any National Insurance Contributions (NICs). You may pay a tax-efficient salary up to the relevant National Insurance threshold, i.e. before you become liable to start paying NICs. You'll be more tax-efficient by paying a lower monthly salary, because after you cross the relevant NI threshold you will begin paying NICs.

Pension payments

Once your company has set up a contract with a pension provider it can make payments into your pension and receive 100% tax relief as an allowable business expense. Each person can contribute no more than 100% of your income, which is capped at a maximum of £40,000 per year.

Fees and expenses for forming your limited company

All relevant expenses associated with setting up your limited company, including accountancy fees or company formation costs, are business expenses and attract tax relief.



Marketing and Entertainment

Advertising, marketing, and PR

Generating leads through marketing and advertising is a key part of growing a successful business. This may be a one-off cost or an ongoing charge, and as long as the service is exclusively for your business then the cost could be classed as an expense.

Entertainment

With just a few exceptions, expenditure on business entertainment or gifts is not allowable as a deduction against profits, even if it is a genuine expense of your business. Therefore, tax relief is not available.

If you've incurred the cost of business entertaining personally you may be able to claim the expense as being incurred in the performance of your duties as a director. These costs would be disallowed in the company profits, so the net effect would be the same as not claiming the expenses in the first place.

A Christmas party or staff events

Your company can host an event, most commonly a Christmas party, as a tax-free benefit, providing you meet certain conditions. The event must be open to all staff and cater mostly to them, although your employees may invite a partner so long as you do not exceed an expenditure of £150 per head. It's good to remember that the £150 amount is an annual limit and can cover multiple events for your team.



Stockport Office

Mynshull House
78 Churchgate
Stockport
SK1 1YJ

0161 477 6789
stockport@warr.co.uk



Manchester Office

76 Manchester Rd
Denton
Manchester
M34 3PS

0161 336 2222
manchester@warr.co.uk



ICAEW
CHARTERED
ACCOUNTANTS