POINT ACCOUNTING

GUIDE 1

Allowable Business Expenses

What your limited company can pay for

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What your limited company can pay for

One of the advantages of operating through a limited company is that the company can deduct legitimate business costs when calculating its taxable profit. The important word, however, is business.

A cost does not become tax-deductible simply because it has been paid from the company bank account. Broadly, it must have been incurred for the purposes of the company's trade, supported by appropriate records and treated correctly in the accounts.

Getting this right reduces the company's Corporation Tax bill without creating unnecessary personal tax problems. Getting it wrong can produce the opposite result, particularly where personal spending is paid by the company and is later treated as a director's loan, salary or taxable benefit.

The basic principle

The company is a separate legal entity from you.

Its money is not automatically your money, even where you are the only director and shareholder. You should therefore think of every company payment as something that may eventually need to be explained.

Before using the company card, ask:

- Is this genuinely connected with the company's business?
- Is there any significant personal use?
- Do I have an invoice, receipt or other evidence?
- Has the invoice been made out to the correct person or company?
- Would I be comfortable explaining the commercial purpose of the cost?

Where the answer is unclear, speak to us before treating the payment as a business expense.

Common allowable expenses

Depending on the nature of the business, the company may usually claim costs such as:

- Accountancy, bookkeeping and professional fees
- Business insurance
- Advertising, marketing and website costs
- Software and business subscriptions
- Office rent and related premises costs
- Business telephone and internet costs
- Stationery, postage and printing
- Staff wages and employer costs
- Subcontractor costs
- Business travel and accommodation
- Training that updates or develops skills used in the existing trade
- Equipment, computers and machinery
- Bank charges and business loan interest
- Employer pension contributions
- Certain staff benefits and staff entertainment
- Professional memberships connected with the work

Some expenditure is deducted immediately. Other expenditure, particularly equipment and longer-term assets, may receive tax relief through the capital allowances system instead.

The accounting treatment and the tax treatment are not always identical, which is why it is important that significant purchases are recorded correctly rather than simply posted to a general expense category.

Travel and mileage

The company can normally meet the cost of genuine business travel, but ordinary commuting between your home and a permanent workplace is not generally treated as business travel.

Where you use your own vehicle for qualifying business journeys, the company may be able to reimburse you using HMRC-approved mileage rates. You should maintain a mileage record showing:

- The date
- The business destination
- The purpose of the journey
- The number of business miles travelled

Fuel, repairs and insurance should not normally also be claimed personally where the company is already paying the approved mileage amount for the same vehicle.

Different rules apply where the company owns or leases the vehicle.

Working from home

Where you regularly work from home, the company may be able to reimburse certain additional household costs or pay an agreed homeworking amount.

The appropriate treatment depends on the circumstances, including whether there is a formal arrangement, what costs have actually increased and whether part of the property is being used exclusively for the business.

Large or unusual home-office claims should be discussed with us before being processed. Aggressive claims can create personal tax, benefit-in-kind or property-related complications that outweigh the initial tax saving.

Telephone and internet costs

A mobile phone contract taken out directly in the company’s name can often be provided to a director or employee without creating a taxable benefit, subject to the relevant conditions.

Where the contract is in your personal name, the position is different. The company should normally reimburse only the identifiable business element rather than paying the entire personal bill without analysis.

The same principle applies to home broadband. Where the service already existed for personal reasons, the company cannot necessarily claim the whole cost simply because it is also used for work.

Meals and subsistence

Meals are not automatically allowable because they were eaten during the working day.

Subsistence may normally be claimed where it forms part of qualifying business travel, such as travelling to a temporary workplace or staying away overnight for business purposes. An ordinary lunch bought near your normal workplace is generally personal expenditure.

Business entertaining should also be recorded separately. Although the company may pay the cost, client entertaining is generally not deductible when calculating taxable business profits. HMRC’s published guidance confirms that business entertainment expenditure is usually disallowed, subject to limited exceptions.

Clothing

Ordinary clothing is normally personal, even where you buy it specifically for work.

The company may usually claim for items such as:

- Protective clothing
- Uniforms

- Clothing carrying a permanent and conspicuous company logo
- Specialist costumes required for a particular trade

A business suit, shoes or general office clothing will not normally qualify merely because you would not otherwise have bought them.

Training and development

Training costs may be allowable where the training maintains, updates or develops knowledge used within the company's existing trade.

Training that prepares you for a completely new trade or profession may require different treatment. The dividing line is not always obvious, particularly where the business is developing into a new service area.

Material training costs should therefore be considered according to their actual commercial purpose rather than automatically treated as deductible.

Gifts and entertaining

Small promotional gifts may qualify where they meet the relevant conditions, but gifts of food, drink, tobacco or exchangeable vouchers are normally restricted.

Client entertaining is generally not deductible for Corporation Tax purposes, even where the expense has a genuine commercial purpose. It should still be recorded through the accounts so that the correct adjustment can be made.

Staff entertaining is treated differently. An annual event may fall within the staff annual-function exemption where the statutory conditions are met, including the relevant cost-per-head limit.

Trivial benefits

A company may provide certain small benefits without creating an Income Tax or National Insurance charge where all of the qualifying conditions are met.

Broadly, the benefit must:

- Cost no more than the permitted amount
- Not be cash or a cash voucher
- Not be a reward for work or performance
- Not be provided under a salary-sacrifice arrangement

Directors of close companies are subject to an overall annual cap of £300 for benefits falling within the trivial-benefit exemption.

This is a useful but narrow exemption. It should not be treated as a general allowance that can simply be withdrawn in cash.

Personal expenditure paid by the company

Where the company pays a personal bill, the payment does not become allowable merely because it appears in the company's bookkeeping.

It may instead need to be treated as:

- A repayment of money the company owes you
- Salary or a bonus
- A taxable benefit
- A dividend
- A loan to the director
- An amount that you must repay to the company

The correct treatment depends on what the payment represents and whether the necessary company-law and tax procedures have been followed.

Repeated personal spending through the company account can also make the bookkeeping less reliable, conceal the true financial position and create avoidable director’s-loan problems.

Keep the evidence

The company should retain invoices, receipts, contracts, mileage records and supporting explanations. Limited companies are generally required to keep accounting records for at least six years from the end of the financial year to which they relate, and sometimes longer.

A bank transaction on its own does not necessarily demonstrate what was purchased or why it was incurred.

Where possible:

- Ask suppliers to address invoices to the company
- Use the company bank account for company expenditure
- Avoid mixing private and business purchases
- Photograph or upload receipts promptly
- Add a note explaining unusual transactions
- Tell us where an expense contains personal use

The practical rule

Claim everything the company is properly entitled to claim, but do not force personal spending through the business in pursuit of a small tax saving.

The strongest expense records are not the ones containing the greatest number of claims. They are the ones that show a clear connection between the cost, the underlying business activity and the evidence retained to support it.

This guide provides general information only. The correct treatment depends on the nature of the expense, the company’s activities and the circumstances in which the cost was incurred. HMRC maintains separate guidance covering the allowances, expenses and reliefs potentially available to limited companies.

Need advice tailored to your company?
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