

Contractor expenses using an umbrella company



Expenses: A hot topic for contractors

A business expense is a cost that has been incurred wholly and exclusively for business purposes. Contractors working through an umbrella company will have chargeable and non-chargeable business expenses. Non-chargeable expenses are costs that your end client will not reimburse but can be claimed as tax-deductible expenses through your umbrella company. Chargeable expenses are costs that your end client has agreed to reimburse to you; therefore you will receive the full value of the expense back provided that the expense is allowable for tax purposes.

Which contractor expenses are allowable for tax relief?

The following expenses can be treated as allowable expenses:

- Computer software, if necessary for your contract work
- Executive pension contributions to a **HMRC approved scheme**
- Business phone and mobile call costs
- **Insurances**
- Subscriptions to **HMRC-approved professional bodies**
- Costs of relocation resulting from your contract role, e.g. flights
- Stationery and printing costs
- Training costs (purely for contract purposes)
- Protective clothing, tools and equipment
- Costs of an eye test (for computer-related roles)

Contractors should bear in mind that with HMRC tightening up on IR35, proving your entitlement to claims can be extremely difficult. Contractors are automatically considered ineligible for expense claims and must appeal against this decision in individual cases. This can result in considerable paperwork and associated costs; for this reason, many umbrella companies don't offer expenses, while others charge the contractor separate fees for processing.

Travel & Subsistence (T&C) Expenses

From April 2017 workers employed through intermediaries, such as umbrella companies, personal service companies or limited company directors who are working inside **IR35**, can no longer claim tax relief on **travel and subsistence** costs. Under the new rules, HMRC assumes that if contractors are providing their services through an employment intermediary they will be subject to **supervision, direction & control (SDC)**. Each engagement is treated as a separate 'employment' with each workplace treated as 'permanent'. According to HMRC, travel between your home and the workplace is regarded as ordinary commuting, therefore travel costs are not eligible for tax relief. The same logic applies to everyday food costs and other subsistence expenses which are regarded as normal costs under the new rules.



Are there any exceptions to the ruling on T&C expenses?

The new rules on travel and subsistence expenses only apply to workers who are under the direct control, supervision and direction of their end-client or are essentially working inside IR35. HMRC acknowledges that not every client treats their temporary workforce like full-time employees. As a result, contractors who are able to prove they are not subject to supervision, direction or control can continue to claim travel and subsistence expenses.

A provision exists for a minority of contractors, including genuine 'mobile workers', who are required to travel to different places of work throughout the day, away from the client's office/premises. If you're claiming for travel on public transport, check with your employer if there's a limited allowance. Subsistence expenses can include the expenses that arise when on a business trip such as **food, drink and accommodation**. If you're claiming either travel or subsistence expenses, it is likely you will have an agreed limit with your client or agency. HMRC has set **benchmark rates**, designed for employers.

Do I need to keep my receipts?

You must keep receipts for all your expense claims as HMRC could ask to see proof that you've actually incurred these expenses. **If HMRC investigates your expense claims they can go back as far as six years**, so it's recommended that you keep your receipts for at least this length of time.

If you're investigated and you don't have receipts to support your claims, you could be made to pay back any underpaid tax and an interest penalty for the extra time you've held onto the additional funds. In serious cases, contractors can be prosecuted for tax evasion.

Claiming back allowable contractor expenses

If you are outside supervision, direction and control and the client has agreed to pay your expenses, you must submit receipts for all of your allowable expenses via the **umbrella company**. You will then be reimbursed in your pay. Your self-assessment will need to include details of your claimable expenses.

For contractors claiming back, a **mileage allowance** details should be filled in on each **time sheet**; they should ask their agency to confirm how this information should be recorded in order to ensure the client is invoiced correctly.

Who is responsible for incorrectly claimed expenses?

If the umbrella company has provided incorrect or misleading information and has allowed a contractor to claim expenses illegally, they can be found liable, and the director(s) of the umbrella company can be held responsible for the outstanding debt, as well as further penalties from HMRC. If on the other hand, a contractor has deliberately provided incorrect information in order to fraudulently claim expenses (e.g. stating they are not under SDC when they know they are), they can be held accountable for paying back the outstanding debt and any further penalties.

Umbrella Exchange can offer solutions to suit your personal circumstances. We have access to an excellent range of contractor service providers. Get in touch with us and we'll talk you through your options.

