



Accountancy Co-operative

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Valid Expenses – Inside & Outside IR35

Are Expenses Different Between a Limited Company and an Umbrella Scheme?

It is important to realise that the tax allow-ability or otherwise of any expenses is not affected by your decision to operate through your own limited company or an umbrella company. The same tax rules apply to everyone regardless of the payment structure used.

The amount of allowable expenses you can claim will depend to a large extent on your IR35 status.

You will be able to claim more expenses if you are working on contracts, which are outside the scope of IR35.

Valid Expenses - Outside IR35

The expenses allowable for a contract not caught by IR35 would be as follows:

1. Your gross salary – this would usually be kept low, in order to maximise dividends payable to yourself as shareholder (thereby avoiding employees and employers national insurance contributions).
2. Spouse's salary (which must be actually paid and not unrealistic, having regard to the duties performed).
3. Travel expenses.
4. Motor expenses (mileage claims if the car is personally owned).
5. Accommodation and subsistence.
6. Telephone and business calls only.
7. Books, magazines, subscriptions and courses – where related to business and your contract work.
8. Bank charges and interest – on your company bank account.
9. Pension scheme – where paid by the company to a HMRC approved scheme.
10. Business insurances – professional indemnity, business contents and other business related insurances.
11. VAT on expenses if your company is VAT registered.



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12. Computer costs.
13. Accountancy costs - if using a Limited Company.

Valid Expenses - Caught by IR35

The expenses allowable for a contract which is caught by IR35 would be as follows:

- Your gross salary - this would need to be calculated in accordance with the IR35 regulations (rather than a fixed low monthly salary as above).
- Direct business expenses incurred specifically in respect of the contract work.
- Travel expenses (depending on the circumstances of the contract).
- Administration expenses (limited to 5% of the gross fees receivable).

What About Dispensation Agreements with businesses?

These are granted locally for each business and vary from business to business. They are simply a way of reducing the amount of paperwork required to be completed by the employer (or company).

They do NOT 'guarantee' that the individual should not have receipts for business expenditure.

An individual cannot claim for an un-receipted business expense that they did not genuinely incur and can evidence. **'Wholly and Exclusively for business use'**

The liability of any underpaid tax resides with the freelancer. So, if any scheme purports extremely generous expense allowances, no receipts required (ever), and uses this as a main 'feature' then the individual should be very careful.

A dispensation is simply a way of reducing administration and should not be viewed as a way to claim carte blanche on all types of un-receipted expenses.



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