

## Training expenses - what contractors can claim

Contractors who invest the most in improving their skills are in the best position to take the pick of contracts available.

Contractors in some sectors, like engineering, have an ongoing duty from their professional body to constantly maintain and upgrade their skills through Continued Professional Development, or CPD.

It is possible to claim certain training expenses as a deductible expense paid for by the [contractor's limited company](#). This can save money as the cost of the training comes from the contractor's company, rather than their own pocket!

### What training qualifies?

With the cost of many courses running into thousands of pounds, even for a single day, contractors could potentially save themselves significant sums in addition to improving their skills and increasing the chance of winning contracts.

However, as David Colom, of [DJ Colom Accountancy](#) explains, only certain training can be claimed: "The key question that has to be answered as to what types of training can be a legitimate deductible business expense is whether the training is directly relatable to the income being generated by the contractor at the time."

For example, take a contractor who is an experienced database developer, having contracts in place with clients doing work on database development projects. If the contractor pays for a day refresher course in database design, that course is directly relatable to the work the contractor is doing for clients at that time, and therefore a legitimate deductible business expense.

### Training not linked to income

"However," says Colom, "if a database developer decides to invest in a week-long residential course learning website design, that course is treated differently and is not an allowable expense. In other words, the website design course is not a cost directly relatable to the database work the contractor is conducting with current clients."

Some IT contractors who work across a number of platforms will have more flexibility as cross training can be essential for them to perform their roles.

Training is treated like any other deductible business expense; it must be 'wholly, necessarily and exclusively' in the performance of duties and related to income. If the training is not linked to existing income, then it cannot be treated as a deductible expense through the contractor's limited company.

### 'Investment in the mind'

According to Colom: "A university degree course, or three-month residential course learning a new skill is not allowable. It could be argued that the course fees are a capital expense and could be charged to the contractor's company, but the contractor would not get tax relief." And this, says Colom, can cause the contractor complications so should be avoided.

University courses and training not relevant to a contractor's existing skills are also excluded, because they are an 'investment in the mind', as Colom explains: "The cash spent investing in a new skill that puts a contractor in a position to seek new work cannot be claimed.

"When the skill is learnt, and the contractor is invoicing clients for applying that skill, further improvements to that skill are allowable, but HMRC won't let you claim for the expense of getting you there."

### What if the client offers to pay for training?

It is possible that a client might want a contractor to beef-up their skills in an area related to the work the contractor is already doing and offer to pay for training.

In this case, the contractor would be well advised to politely decline the invitation, and if it becomes a sticking point, bite the bullet and pay for the training themselves.

From the client's perspective, it might be a perfectly reasonable expense. "Large companies can claim for a much wider range of training expenses," says Colom, "whereas a one man company, where the contractor is the controlling party, does not qualify for this type of tax relief."

“ A university degree course, or three-month residential course learning a new skill is not allowable. ”

David Colom, DJ Colom Accountancy

Accepting formal training from a client also suggests that the contractor is working within [IR35](#). Large companies would normally invest in training for their employees, and a contractor accepting a 'free' training course from a client could attract the attention of HMRC.

## What HMRC says about training costs

According to the [HMRC guidance on training costs](#):

"In considering the question of purpose, you should not take an unduly narrow view of whether the content of any particular course only up-dates existing skills of the individual. But if it is clear that, for example, a completely new specialisation or qualification will be acquired as a result of the expenditure, it is unlikely that the expenditure will be wholly and exclusively for the purposes of the existing trade."



HMRC does allow some latitude for contractors who want to cross trade, but it is clear from their guidance that if a contractor paid for a course to become a driving instructor, they would not be able to claim this expense.

However, in an appeal before the Special Commissioners, [Dass v HMRC](#), it was ruled that a course to gain a new skill was not deductible as a revenue expense but should be treated as capital.

Training budgets are quite often the first expenses cut by firms when times are lean. However, for contractors, investing in training now could mean the difference between winning that next contract, or not.

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David Colom qualified as a Chartered Accountant in the City of London in 1981 and is the founder and principal of D J Colom & Co Chartered Accountants established in 1989.

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