

Contractor Doctor: I've bought a house to be near my clients: what costs can I claim?

Dear Contractor Doctor,

My main residence and family home is in the North of England. However, as most of the contract work is in the South West, I have bought a house nearer to my clients' locations.

I spend weekdays, and nights, in the house in the South West and I travel back to my family home and main residence at weekends and during holidays.

What costs can I claim?

Thanks

David

Contractor Doctor says:

"The key facts in this case are that the contractor bought the property in the South West exclusively for business purposes and has a family home in the North, which is his primary domestic residence," notes David Colom of contractor accountant [D J Colom & Co.](#)

According to Colom, because the second home is used solely for business purposes, it is effectively akin to an office because the fact that the contractor sleeps there makes no difference.

"The contractor can claim all the non-capital costs of running and financing his second property as a [legitimate business expense](#)," continues Colom. "Even though he only uses the second property five days a week, because it is business accommodation the entire amount is allowable, not just a proportion."

Capital, finance and revenue expenditure

However, Colom warns that only revenue and finance costs can be claimed through a [contractor's limited company](#), not capital costs. This means that [mortgage interest payments](#) can and should be claimed in full, but the following cannot: payments towards the capital cost of the property, or the cost of alterations or extensions.

"Capital expenditure covers items like buying business premises, refurbishment and alterations, and most contractors would not qualify for capital allowances on these items," says Colom. "Revenue expenditure includes utilities like heat, light and water, plus communication costs, such as business broadband and a phone line, as well as [council tax](#), which are all allowable."

To gain tax relief, the contractor would charge these costs to their [contractor limited company](#). Utilities and communications should ideally be in the company's name, so there is no doubt that they are genuine business expenses.

Travel and subsistence

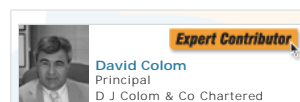
Although a contractor could technically claim an element of their subsistence costs under [HMRC's scale rates](#), Colom highlights HMRC's view that people 'eat to live', and that only any additional cost of food can be claimed.

"Just because the contractor is sleeping in their 'office' does not mean they are incurring an additional cost of food by staying in that house," explains Colom. "For the sake of the odd fiver here and there, it's not worth the contractor attracting the unwelcome attention of [HMRC](#) by making additional claims for subsistence during the week, especially as items like mortgage interest and utilities will have a much greater impact."

Colom also says the same will apply to travel expenses between the contractor's primary residence in the North and his second home-office in the South West. "Eventually the [24-month travel expenses rule](#) will come into force, meaning the contractor will no longer be able to claim travelling expenses from home in the North to second property in the South West, as technically the second home becomes the permanent workplace.

"However," concludes Colom, "journeys to and from client locations in the South West during the week, when the contractor is based in his second home, can be claimed as legitimate travel expenses."

“ The contractor can claim all the non-capital costs of running and financing his second property as a legitimate business expense ”
David Colom, D J Colom & Co



Good luck with your contracting!


Contractor Doctor

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ACCOUNTANTS
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.

Started specialising in serving IT contractors in 1993 and is now one of the longest standing suppliers of accountancy services to computer contractors. [Read Full Profile...](#)

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