

## Contractor expenses: HMRC releases benchmark scale rates for contractors' subsistence

HM Revenue and Customs has just launched a new system, the '[benchmark scale rates](#)', designed for contractors who incur subsistence costs, such as meals, when they are travelling away from their normal place of work.

Benchmark scale rates will most likely affect [umbrella company contractors](#) whose umbrella company has a [dispensation](#) in place with [HMRC](#), and who are used to claiming a set amount of expenses for meals every day. Contractors working through their own [limited companies](#) remain unaffected.

HMRC says the new rates should simplify things and reduce the time and costs involved in administering dispensation schemes – these are the agreements between individual umbrella companies and HMRC to pay contractors an agreed rate without them needing to process too much paperwork.

### Umbrella company dispensation reviews?

Although HMRC has not stated that it plans to review existing dispensations, a senior umbrella company source has suggested to ContractorCalculator that HMRC will be looking hard at existing dispensations.

"There are potentially good things and bad things that can happen as a result of this latest move by HMRC," explains ContractorCalculator CEO Dave Chaplin. "For example, new umbrella companies can start using these rates without the need for a formal dispensation.

"However, the downside is that senior executives from several umbrella companies have told me that they are expecting HMRC to come knocking on their doors asking to review their existing dispensations before they expire."

### Benchmark scale rates

HMRC has set the benchmark scale rates at:

- o Breakfast rate: For 'irregular early starters' which means contractors who occasionally leave home before 06:00 and have breakfast £5.00 can be claimed
- o One-meal rate: Also known as the 'Five hour rate', if the contractor is working on a client's site for at least 5 hours, they can claim £5.00
- o Two-meal rate: Called the 'Ten hour rate', this allows a contractor who has worked away from their normal place of work for more than 10 hours to claim £10.00 for the cost of meals incurred
- o Late evening meal rate: For 'irregular late finishers', up to £15.00 can be claimed when the contractor has been away from their regular place of work on-site with the client after 20:00, but only if this is an occasional occurrence.

Contractors must buy the meals – if they don't, HMRC is quite clear that they cannot simply claim the allowance; so skipping lunch does not benefit contractors.

Fortunately, umbrella company contractor employees will still be able to claim [legitimate expenses](#) in full by supplying receipts and declaring their expenses on tax paperwork, otherwise those working in expensive city centres could find themselves struggling to eat lunch on £5.00 per day.

### 'Qualifying conditions'

Contractors don't automatically have the right to claim these expenses and off-set these business expenses against their tax and National Insurance Contributions (NICs). The usual caveats to expenses apply:

- o Contractors must be travelling to a temporary workplace, like their client's site or alternative client locations
- o The contractor must be away from their normal place of work, which for umbrella contractors is frequently their umbrella company's main address, for either 5 or 10 hours
- o The contractor must have incurred their expenses once they have started their journey to the client's site.

**“ Contractors don't automatically have the right to claim these expenses and off-set these business expenses against their tax and National Insurance Contributions (NICs). ”**

The early starter and late finisher rates can only be claimed on an occasional basis, and HMRC is likely to start asking awkward

questions if this is not the case. For these 'scale rates' to remain free of tax and NICs, they must be limited to three meals during a 24-hour period. A meal is defined as a 'combination of food and drink'. So snackers and liquid lunchers beware!

### Nothing changes for limited company contractors

Limited company contractors can continue to claim legitimate business expenses by producing receipts for their meals as before, as these new rates are designed for large companies employing many thousands who wish to reduce their admin burden.

And depending on the arrangements that are in place with client contractors and HMRC, many umbrella company contractors could remain unaffected by these rates in the short term, but it is likely HMRC will encourage their umbrella companies to update to the new rates in the longer term.

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Dave Chaplin is a former IT contractor in the City of London, and is founder and CEO of ContractorCalculator, and author of the Contractors' Handbook.

Started in 1999, ContractorCalculator (this site) is the leading independent website for the UK contracting industry - most of whom are highly skilled knowledge workers. [Read Full Profile...](#)

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