

Contractor Doctor: What are Schedule E expenses?

Dear Contractor Doctor,

I am a first-time contractor and have started my first contract working through an umbrella company.

Since joining, I have been sent quite a lot of paperwork and links to the umbrella company's website asking me to complete expenses forms and to keep receipts.

What are Schedule E expenses, and what expenses am I entitled to claim?

Thanks

Mike

Contractor Doctor says:

"Contractors who are contracting through their own [limited company](#) or through a [contractor umbrella company](#) can claim expenses that are incurred whilst performing business duties," explains John Hill of contractor accountant [John Hill Associates](#). "This helps them reduce their income tax and National Insurance Contributions liabilities."

Up until 2003, such expenses were known as Schedule E expenses, and many still refer to them as such, even though Schedule E no longer exists.

"These expenses are allowed against the earnings received by the contractor who is a director or an employee of a company, whether it is their own company or an umbrella company," continues Hill.

Contractors who work through their own limited company or other payment vehicle, such as an offshore solution, can have income that is treated and taxed by HMRC according to different rules. There are also different kinds of expenses that cannot be claimed as expenses against earnings, such as client rechargeable expenses or capital expenses on equipment.

What expenses can be claimed?

"Only expenses that are incurred wholly, necessarily and exclusively in the performance of duties can be claimed against earned income," says Hill. "So, for example, a contractor using their home phone can only claim the cost of business calls; private calls and the line rental are not allowable."

The expenses that are allowable include:

- o Subsistence (food and drink) costs incurred when working at a temporary workplace
- o Mileage for a car, at 40p per mile for the first 10,000 miles and 25p per mile thereafter (rates correct at the time of writing). Mileage for motorcycle and bicycle journeys can also be claimed, although not at the rates given above
- o Rail, bus, taxi, car hire and air travel to and from the temporary place of work, or on solely business travel, such as to attend meetings
- o Parking and other [contractor travel expenses](#), which can include tolls and congestion charges, although not fines
- o Accommodation, such as the cost of a hotel or bed and breakfast for overnight stays and, in some cases, the rental cost of a property used by a contractor on working days
- o Telephone call charges that are business calls only; line rental is not allowable
- o Office consumables and stationery in reasonable amounts that are used solely for business purposes
- o Eyesight tests, where it is necessary for the contractor to use, or continue to use, visual display equipment, such as PC monitors
- o Manuals and textbooks that are used exclusively for business purposes and are directly relevant to the contractor's main business or skill (books related to new skills you are developing are not allowable)
- o Professional subscriptions, but only those included on the [approved list created and maintained by HMRC](#)
- o Work-related training, where the training is directly related to the kind of work performed by the contractor, and related costs such as travel and subsistence when attending the training (as with books, training related to new skills you are developing is not an allowable expense)

- o 'Sundry expenses', which could include items such as personal protection equipment for engineering contractors, replacement hand tools, or hardware and software where personal use is incidental.

Some umbrella companies may also have a pre-agreed 'dispensation' with HMRC, which allows contractors employed by them to claim specific amounts up to set limits for the above expenses. Contractors working through umbrella companies should consult their customer service team about guidance on what is allowable.

Umbrella companies that ask their contractors to keep receipts are providing absolutely the right advice. However, as Hill warns: "Some umbrella companies, and their representatives, have been known to tell contractors that receipts are unnecessary. That is not the case, and HMRC requires that contractors keep receipts or, where these are not available, detailed records of what for, when, where, how and why the expenses were incurred."

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John Hill, John Hill Associates

Expenses not allowable

HMRC provides [guidance on specific expenses that may or may not be allowable](#). In many cases it will depend on the particular circumstances; for example, a car valet can legitimately claim the costs of car washing equipment, but a drilling engineer would not be able to.

Capital costs of plant and equipment are not allowable expenses against earnings and these costs would normally be paid for by a business, such as a limited company or through a partnership or self-employment, and not by an employee.

How to claim expenses

Contractors working through their own limited company should [prepare a regular expenses form](#) detailing their expenditure and transferring the costs from their business bank account to their personal account.

A receipt or invoice must be obtained for every expense and kept in the contractor's accounting records for six years in the event of an [investigation by HMRC](#). Where car mileage claims are being made, it is essential that the starting and finishing locations of each journey are recorded (the relevant postcodes will suffice for this purpose), and if the contractor is VAT registered the receipts must be kept.

"Most umbrella companies and other trading vehicles, such as offshore companies, have their own preferred method for contractors to claim expenses, and much of this is completed online," concludes Hill. "Reputable umbrella companies will require their contractor employee to keep all original receipts and invoices in the event of an HMRC investigation."

Good luck with your contracting!

Contractor Doctor

Published: Thursday, December 11, 2008

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