

## Contractors and umbrellas see no challenge in expense handling

There has been a certain amount of noise in the press about contractors and [umbrellas](#) and the handling of [contractor expenses](#). There is in fact no real challenge here, nor has there been any change in policy on the part of the Revenue, as sources there are pleased to assure us. There is certainly no occasion for alarm.

Contractors who are careful about compliance and who document their expenses have absolutely nothing to worry about.

### Stay Safe And Keep Receipts

"Contractors have only to follow the safest policy in this regard to avoid any kind of problem: document all your expenses," says Adrian Marlowe, managing director of the Hove-based legal consultancy [Lawspeed](#) which specialises in recruitment affairs.

[Umbrella companies](#) should follow the same policy, Marlowe advises. With all the documentation in place, there can be no dispute about expenses. If the umbrella has obtained a dispensation it still has to keep all the documentation in place in case of inspection. This can hardly be called a heavy burden.

### Big Surprise--Cheating Doesn't Pay!

A recent guidance announcement about dispensations by HMRC simply confirms previous policy. Dispensations are a labour-saving device which allows an employer--any employer, not just an umbrella company--to not produce documentation for certain types of repetitive expenses.

This does not mean that the documentation should not be in place; it just means that the Revenue won't have to look at it every time.

If an employer makes use of dispensations, and doesn't have the paperwork to justify them, the Revenue will disallow the expense deductions and expect repayment. If this has been going on for years, then the sum in question could be quite large.

In other words, if you cheat on your taxes, and you do it for a long time, and you get caught, then the Revenue will make you pay back what you owe and it could come to a lot.

Big Surprise!

The issue of contractor expenses has become a fraught one in recent years. One of the big advantages that contractors obtain by using an umbrella company is the ability to deduct expenses. These can be substantial, particularly if travel is involved. But because of the accumulation of paperwork, the temptation to exaggerate is too great for a few contractors, and some umbrellas haven't been careful about keeping it all in order.

### Warning Statement

The result has been that the Revenue has issued a kind of warning statement on the subject. As Marlowe explains: "It is only to be expected that this should be an area of concern for HMRC, nor is it surprising that attention be brought to the subject."

So all businesses, not just umbrella companies, have to keep proper track of their documentation of expenses. Contractors who have [limited companies](#) are under precisely the same obligation. The documents should be kept for six years which is the period in which the Revenue can go back for inspection should it choose to.

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