

How contractors should process contracting expenses

If you are running your own company and paying out of your own pocket for [contracting expenses](#), especially cash expenses, it really pays to have a simple system to ensure that not only are you keeping statutory accounting records for tax and VAT purposes, but that you are also claiming everything you are entitled to.

Many contractors are used to the expenses systems that big companies have for their employees. Usually, the company has a standard expenses form that employees fill in each month, and then the next month the money they have paid out on behalf of the company is paid back to them alongside their salary.

Contractors who [run a limited company](#) must also keep a clear record of any expenses they wish to claim. These records do not need to be complex, as long as they keep to the rules laid down by HMRC. And the good thing about having a system in place is that it can act as a reminder to you to claim [everything that is allowable](#) by the taxman.

Always get receipts

It is very important to get receipts for every business related purchase. Where it might not be possible to provide a receipt – say, for example, your train ticket gets swallowed by the ticket barrier – the expense can still be claimed, but careful note must be made of exact amounts and times. This is because it might be necessary to prove to the HMRC at a later date that you were on that train, or had bought that snack from a street vendor.

Should a contractor be claiming [VAT](#) on expenses, then a VAT receipt is required for each specific expense for any costs that are VAT rated. For example, train tickets do not have VAT added, but motoring expenses do.

When to claim expenses

Contractors can claim expenses from their own limited company at any time. It could be daily, weekly, monthly, quarterly or even annually. Many contractors claim expenses quarterly, as this matches the cycle of VAT returns.

Cash flow may also determine when the contractor claims expenses. If client invoices, billed monthly, are outstanding and there is not enough cash in the business to pay the contractor, then there is little point making a claim at that time. However, the paperwork could be submitted and the expenses accrued, or delayed, until there is enough cash in the company bank account.

Expenses forms

Although expenses forms can vary, especially if supplied by the contractor's accountant, there is always some key information required:

- o Date of the expense
- o Nature of the expense
- o Amount of expense

A basic expenses form can be created in Excel, and look something like this:

Date	Details	Amount (£)
1st Jan 2008	Train fare	22.80
23rd Jan 2008	Printer cartridge	17.49
10th Feb 2008	Stationary - 100 x stamps	15.50
	Total	55.79

- o The first column contains the date on the receipt, or the date of the expense if there is no receipt
- o The second column contains a sentence about the nature of the expense; for example "Trip to client site in Bristol, 479 miles @ 40p per mile"
- o The third column contains the amount of the expense.

Some accountants prefer their contractors to use their own standard forms and, on occasion, specialist software. It is important for the contractor to check with their accountant to avoid duplication of effort and, potentially, a higher-than-necessary accountancy bill.

If you wish you can download our Contractor Expenses Template in Excel, from our [downloads section](#) or by clicking on the picture below:



Contractor Expenses
Template.xls

Claiming VAT

Some expense forms have a fourth column for VAT. Contractors need to check with their accountants about how best to manage their VAT claims; but this only applies if the contractor is VAT-registered. Accountants will do the calculations, but if a contractor completes the VAT column it can save on accountancy bills.

To calculate the VAT of most VAT-rated goods and services, divide the price you paid by 117.5, and then multiply that figure by 17.5 to give the VAT figure (or use our [VAT Calculator](#)). Not all goods and services are VAT rated: books for example are still zero rated for VAT, so make sure you only claim what you can.

Getting the money

Total the amounts, print the expenses form, attach the receipts and at the end of the expenses period, transfer exactly that amount of money from your company's business bank account to your personal account, or write yourself a business cheque. Then make sure you send the expenses paperwork to your accountant for record keeping.

The golden rule is to keep good records, keep the system simple and keep it up-to-date. Your accountant, and your bank balance, will thank you for it.

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