

The IR35 5% expenses rule

Introduction

Contractors caught by **IR35** who use a limited company payment structure need to take into account a HMRC 5% expense allowance rule.

This article explains the 5% rule and how it should be applied.

Yearly calculation

Contractors and other service companies which receive income caught by the rules of **IR35** must carry out a deemed salary/Schedule E calculation each tax year, based on income received from relevant engagements.

HMRC allow an expense allowance equal to 5% of the income received from relevant engagements in calculating the deemed salary. This is intended to cover the following 'administration' costs where applicable:

Premises costs including home as office

Administration and secretarial support

Accountancy and tax advice

Costs of seeking contracts

Printing, postage and stationery

Employer's and Public Liability Insurance

Training costs

Computer equipment (if not eligible for capital allowances)

Bank and overdraft interest

Hire purchase payments

The 5% deduction is given at a flat rate on gross fees receivable and is not available to employees as an expense which they can draw from the company.

It is simply allowed in the deemed calculation of IR35 salary as a fixed and limited claim against the above expenses.

In granting the 5% allowance, HMRC do not require proof of expenditure and the full 5% is granted, even if there is no actual expenditure whatsoever.

Other expenses

Note that the 5% allowance is only for "administration" and is to cover the ten points above. In addition to the 5% for administration costs, a contractor can also claim direct costs such as travel, computer costs, subsistence, direct training, sub contractors, etc.

Allowances for corporation tax

The 5% is in respect of the deemed salary calculation only and is not taken into account when preparing the company's accounts and corporation tax computation.

The company accounts will take into account the actual expenses only, which may be higher or lower than the 5% allowance.

Contractors using PAYE Umbrellas



David Colom

Principal

D J Colom & Co Chartered 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...](#)

[View all our experts](#)

If a contractor is caught by IR35 and using a PAYE umbrella, then the 5% rule is unlikely to apply, since they will not have "administration" expenses, apart from the umbrella company fee which is deducted from the salary in any event.

The actual costs of travel, subsistence, computers, etc., can be claimed in full and tax/national insurance relief obtained on them.

Published: Monday, January 8, 2007

© 2016 All rights reserved. Reproduction in whole or in part without permission is prohibited. Please see our [copyright notice](#).



ABCe verified website - last audit confirmed *134,482 monthly unique visitors*

© Copyright 2016 Byte-Vision Limited UK. All rights reserved [Copyright notice](#)