

Travel and fuel expenses for contractors

Contractors in general have the right to claim travel and fuel expenses when they take trips away from their home office on business. But, under legislation in preparation by the Treasury, contractors who work for umbrella companies or managed service companies may lose that right.

You Can Deduct Expenses

"The short answer is that under current legislation you have a right to claim your expenses," says David Colom, a principal with [DJ Colom & Co.](#), the London-based accounting firm that specialises in working with contractors.

"If you are in a [limited company](#), or if you work for yourself as a sole proprietor (and you are not caught by [IR35](#)), you can deduct car travel under the Inland Revenue agreed 'Fixed Profit Car Scheme' – currently 40 pence per mile (for the first 10,000 miles per year), and 25 pence thereafter."

But there are restrictions

You need to be traveling away from a clearly defined home base. And if you travel regularly to the same office, you must be sure that you will not continue such traveling for a two-year period, and that your contract does not envisage your continuing for two years, Colom points out. It does not matter what your agreement states. It must be clear that you do not expect to be on the same trip regularly for two years. See the [24 month travel expenses rules](#).

Under those terms, you are free to deduct your train and tube fare, and anything else related to your movement from one place to another. You have the right to consider meals, hotels, and any work-related expenses that you incur on the way as deductible expenses. Remember that the Revenue reserves the right to carry out an investigation into your tax return so you must keep all relevant paperwork for at least 5 years after the 31st January deadline of the tax year in question.

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David Colom - DJ Colom

Subsistence Allowance

The only exception is the subsistence allowance of £5 for each night you spend away from home which is often claimed in lieu of actual meals and lodging. You can also claim £10 per night if you are sent overseas in performance of the contract. Receipts for this particular expense type are not required.

But All This Could Change in March

"But all this could change for those who work for [umbrella companies](#)," as Colom explains, although much will depend on what final form the legislation takes.

In the interim, the Revenue declines to provide any guidance on contractor expenses, as the legislation will not receive its final form until March when the final budget law is passed. (Requests for an interview by ContractorCalculator were also declined.)

“ But all this could change for those who work for umbrella companies ”

David Colom - DJ Colom

But the document published jointly by HM Revenue and HM Treasury on Dec. 6, 2006, "[Tackling Managed Service Companies](#)," states, "the managed service company deducts from the amount of the payment received by the worker expenses that are allowable under the Income Taxes Acts."

The document continues: "however, the amount of allowable expenses is to be worked out, not on the basis that the worker is employed by the managed service company and that each engagement with an end client represents a temporary workplace, but rather: as if the worker had been employed to provide their services by the client, and the worker had paid the expenses out of their taxable pay. Because the expenses to be deducted are calculated on this basis, the worker is not entitled to claim expenses for travel to the client's premises, nor to any associated accommodation or subsistence costs."



Colom thinks that this extreme position may be modified before the law is adopted in its final form. "This puts umbrella companies at a disadvantage to one-man limited companies," Colom says.

The entire policy of the Treasury in regard to managed service companies, composites, and umbrella companies is currently under review as the final legislation is being determined. Contractor associations like the [Professional Contractors Group](#) (PCG) are heavily involved in a lobbying process to change the more extreme aspects of this policy. It is hoped that the industry will not suffer too much when the final form of the laws is published in March.

You can follow the proposals on our dedicated page: [Managed Service Companies Legislation](#)

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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...](#)

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