

Contractor doctor: can you clarify the 24 month expense rules?

Dear Contractor Doctor,

I've been contracting since September 2005 through a contract company supplying services to one of their clients. I now need advice about the 24-month expense rule.

I have been carrying out the same role since Sept 05. One umbrella company is saying my expense claiming would end this Sept. Another umbrella is saying my 24 months would start from now as I haven't claimed any expenses before, and the time rule starts again with any change to my contract i.e day rate, job title etc.

I would really appreciate a definitive answer to my particular situation.

Kind Regards

Jason Stenning

Contractor Doctor says:

The 24-month expense rule states that a contractor may only deduct travel expenses on a given contract for so long as the contractor knows that the contract will last less than 24 months.

According to David Colom, of the London-based contractor affairs specialist firm [DJ Colom & Co.](#), the 24-month expense rule begins when you first begin travelling from your home (or office) to the client premises. From then on you may deduct travel expenses, until you have reason to believe that the contract will continue for 24 months or more.

In your case, you have already been travelling to the client premises for some time, and you know that your work will continue for more than 24 months. Whether this be under a single contract with a given department, or with different departmental contracts makes no difference. What it means is that you may not deduct expenses now that you know the contract will last more than 24 months.

However, you then have to consider how much time you have to spend working at the client site. It would be in your interest to spend less time there, because if you spend less than 40% of your time on the client site, you may deduct travel expenses to it anyway. This 40% rule wouldn't apply to your work there previously, since you spent most of your work time there. But could you arrange your work differently? If so, you could start claiming expenses again.



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.

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There is one more way to handle the 24-month rule according to Colom. Imagine a case, one that is very common, in which a contractor is engaged for a 6-month period four times. That contractor can deduct expenses for the first, second, and third six-month period. But when it comes time to sign up for the fourth one, the contractor should reduce the period to 5 months and 3 weeks. The contractor can then truly say that the 24-month rule does not apply, nor did the contractor have any knowledge that it would last to 24 months--because it doesn't. "Take a week off at the end of the contract," Colom says, "and deduct your travel expenses."

Obviously if the client wants a fifth contract, you're out of luck.

Good luck with your contracting!

Contractor Doctor

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