

## Claiming contractor limited company start-up expenses

Contractors who are [starting their contracting career](#) and have just won their first contract, or existing contractors transferring from other trading options, such as an [umbrella company](#), can claim limited company start-up expenses and off-set them against tax.

However, most contractors will find that they incur some expenses before their [limited company](#) is [incorporated](#) and before they have even opened a [bank account](#) in the name of their [contractor limited company](#).

Pre-incorporation and pre-trading [expenses](#) must be carefully recorded, and any invoices and receipts filed safely. This is particularly important for pre-incorporation expenses, which might not be in the name of the contractor limited company. The contractor must be able to substantiate all their claims if challenged by their accountant or [HMRC](#).

### Pre-incorporation expenses

Despite the fact that a contractor can incorporate their own limited company in a matter of hours online, some contractors incur pre-incorporation expenses whilst they are trying to [win their first contract](#) and when setting up their contracting business.

It is possible to [claim expenses](#), such as [travel](#) and subsistence, before incorporation, but receipts must be kept and the nature of the activity carefully recorded; for example, "attending interviews with Company Y for the first contract".

When a contractor actually starts work before they have incorporated, and plans to invoice after incorporation, it is possible to claim travel and subsistence expenses. However, the contractor must be able to demonstrate to HMRC that there is an income – the first contract – that matches the expenses.

### Company formation expenses

[Incorporating a limited company](#) in the UK is very easy and cheap, with a huge number of online services that can complete the whole process for a few tens of pounds. And even these volume sellers can still provide a contractor with the company name they want, rather than having to buy a pre-existing off-the-shelf company.

In addition, there is the option of dealing direct with [Companies House](#) to incorporate a company.

Contractors can also opt to have a company formation agent register a company for them, which can cost slightly more. Accountants will also happily incorporate a company and prepare all the associated paperwork, but this can cost several hundred pounds. Similarly, a solicitor can also take on the incorporation task, usually for an even greater fee.

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### Pre-trading expenses

Most contractors will find that they incur numerous expenses after they have incorporated but before they start trading. This means taking on costs before their company starts billing its first client and possibly even before they have a business bank account.

These expenses are frequently paid out of the contractor's own pocket, although once the company bank account has been created, contractors can put some cash into their business as a director's loan and use their company chequebook or credit card to pay expenses directly from the company.

Pre-trading expenses can include:

Professional fees to accountants and lawyers, perhaps for incorporating the company or preparing contracts or terms and conditions

Marketing costs, such as domain purchasing, website hosting and design, design and printing of business cards and stationery and maybe some advertising

Travel and subsistence whilst setting up the business and travelling expenses for interviews

Costs, such as reference books, subscriptions, membership of trade or professional organisations directly related to the contractor's business

Equipment, such as computers, software, office furniture, office consumables like paper and printer ink, plus other admin-type costs

Home office running costs, such as fixed line telephone and fax, company mobile phone and broadband internet access

Insurances, such as public and employee liability, professional indemnity insurance and business asset contents insurances (home policies won't cover assets owned by a contractor limited company).

Reasonable [entertainment](#) can also be a start-up cost for many contractor limited companies, but entertainment costs are not tax deductible, although they can be recorded as costs to the business.

## Record keeping

Contractors must keep all receipts and invoices for company expenses right from the start. This includes keeping meticulous records of travel and mileage, especially as many of the receipts and invoices will not be in the name of the contractor's limited company.

Keeping a paper trail is essential, as a contractor's accountant will challenge any suspect costs and HMRC will examine the first months of company activity and costs very carefully if they investigate the business early on in its life. All business records must legally be retained for six years, and that is how far back the taxman can investigate.

It is also possible for contractors to claim the **VAT** on past expenditure on products and services, once they register their business for VAT, but only if a valid VAT receipt has been obtained for each expense.

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