

Contractor doctor: can expenses be claimed for entertainment?

Dear Contractor Doctor,

I'm fairly new to the contracting game and have incorporated a new [limited company](#). I am trying to secure my first interim management contract by working all of my business contacts developed over the last twenty years of my past career.

That's a lot of contacts to take to lunch or for a drink and the costs are starting to mount up. So far, I've been putting meals and drinks on my new company credit card.

Can I claim my entertainment expenses from my limited company?

Thanks

Angela

Contractor Doctor says:

"Contractors can certainly claim expenses for business-related entertainment," explains [James Abbott](#), head of tax at contractor accountant [Abbott Moore LLP](#). "However, their limited company won't be able to claim corporation tax relief for entertainment-related costs."

And Abbott highlights that it is always more tax efficient for a contractor's limited company to pay for legitimate entertainment expenses because, in effect, a contractor could benefit from up to 37.5% tax relief when compared to paying personally.

What qualifies as entertainment?

"There theoretically is no definition of what qualifies as a business entertainment expense nor is there a limit on how much can be spent," continues Abbott. "But common sense should prevail; trying to claim for a £14,000 lunch is likely to draw unwelcome attention from HMRC."

Expenditure on business entertaining, including hospitality of any kind and on gifts, is not allowable, except for:

Gifts (other than food, drink, tobacco, tokens or vouchers) bearing a conspicuous promotional advert or;

Expenditure on staff functions, e.g. Christmas party are allowable of up to £150 per person per annum.

Excessively lavish entertainment may also fall foul of the [Bribery Act 2010](#). Reasonable levels of hospitality are permitted by the Act, but contractors should be careful that overgenerous entertainment out of proportion to their business activities does not spark the interest of the Serious Fraud Office (SFO), particularly if the clients are in the public sector or based in countries where bribery is commonplace.

"Conversely, an IT contractor is unlikely to impress the IT director of a bank by taking them out for a cheap meal," says Abbott, "Nor will HMRC be impressed if a contractor funds the cost of a friend's hen night through their business."

But contractors can fund entertainment items such as a box at Twickenham or a marquee at Royal Ascot if they are for genuine business entertainment; they just can't offset the costs against tax.

Minimise paperwork with a dispensation

According to Abbott, although expenses are tax neutral, HMRC's rules on expenses require contractors to record their entertainment expenses on their [P11D](#): "Entertainment expenses must be listed on a contractor's P11D, alongside other expenses such as travel and expenses.

"However contractors can cut their administration burden by asking their accountant to apply for a dispensation."

Dispensations are not a 'get out of jail free card' for contractors to spend what they like on expenses. A dispensation from HMRC relieves the need for an employer to produce individual P11Ds for every employee simply to account for the reimbursement of expenses where there is no tax to pay.

Entertainment should always be put through the company

Despite the associated paperwork and the fact that it is not tax deductible, contractors should always put genuine business-related entertainment through their company. It is a legitimate business expense and should be treated as such.

Plus, as Abbott explains, paying for entertainment personally can be very tax inefficient: "If a contractor paid for a £100 meal for a client personally then, if they are a higher rate taxpayer, they would have to earn gross fees of £166.56, or £195.63 if they are an additional rate taxpayer, to earn £100. If the expense went through the company they would only need to earn £125.00 to pay the £100 entertaining and the corporation tax on the £125."

Whilst not saving corporation tax, a legitimate entertainment expense put through the company avoids the additional personal tax that would otherwise need to be paid on the drawing the money as a [dividend](#).



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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"Putting a reasonable level of entertainment through a contractor limited company won't attract undue attention from HMRC, in fact it may even help to help support the argument that the contractor is a genuine business outside the scope of [IR35](#) with the costs of marketing that every business has," concludes Abbott, "but contractors who build up excessive amounts of entertainment may put their business on HMRC's radar which could result in an investigation."

Good luck with your contracting!

Contractor Doctor

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James Abbott, Abbott Moore
LLP