

## Contractor Doctor: Can I claim for training as a pre-incorporation expense?

Dear Contractor Doctor,

For the last five years I have been employed full time as a project manager, but I'm just thinking of going contracting.

I've not incorporated my own [contractor limited company](#) yet, but want to attend a PRINCE2 practitioner course to become fully certified and help me win project management contracts. I am planning to pay for the training course on my personal credit card and claim it back from my company.

Can I claim for training as a pre-incorporation expense?

Thanks

Betty

Contractor Doctor says:

"The main issue with Betty's situation is not whether training can be claimed pre-incorporation," explains Steve Crouch, managing director at contractor accountants [Crunch.co.uk](#), "but whether the training is an allowable expense at all according to HMRC's rather strict rules."

Tax-specialist Crouch warns that the rules about what training can be claimed are complex and vary according to a number of factors. These include the type of training, the size of the business making the claim and whether the recipient is merely an employee, or an employee and director.

"My first piece of advice to Betty would be to go ahead and [incorporate her contractor limited company, open a business bank account](#) and loan the company some up-front cash," continues Crouch. "That way all her expenses would be in the company's name from the start and any supply contracts will be with the separate legal entity that is the contractor's limited company."

### What contractor training costs are eligible?

According to Crouch, most training will fall into one of two broad categories: upgrading existing skills and learning new ones.

"The first category covers training and development to enhance a contractor's existing skills," he says. "Therefore, it would cover continuing professional development – which could mean refreshers on the latest tax laws for an interim accountant – or gaining the certificate on a latest software upgrade for an IT contractor. Those would be eligible for the contractor's company to pay for."

But, he cautions, care should be taken with the second category, if you want to claim back the costs of learning a new skill: "HMRC explicitly excludes training that imparts a new skill, provides new expertise or knowledge. The reasoning behind this is that the cost is generating an enduring intangible asset, which is prohibited as a deductible expense."

Crouch explains there are further tax implications when the course or training you want to take is expensive, of long duration and possibly residential, because although the training might be eligible, these features will attract an inspector's attention, possibly resulting in an [HMRC investigation](#).

"Betty has clearly been a practising project manager for some years, so it could be argued that simply gaining certification for skills she already possesses makes the cost deductible," he continues. "But PRINCE2 courses don't come cheap and the expense would almost certainly be challenged by HMRC."

### Personal payment v company purchase

If you pay out for your new [contracting company's expenses](#) before the company is actually incorporated, the taxman says you can only claim back those expenses that have been incurred 'wholly, necessarily and exclusively in the performance of your duties'. This pretty much eliminates training costs, and highlights why early incorporation is desirable.

Crouch explains the ramifications in this case: "If Betty were to attend the PRINCE2 training and pay for it out of her own pocket before she started trading with her first contract, she would technically not be incurring the expenses in the performance of her duties, rendering the expense ineligible. But she may have a case if the course is paid for directly by her company."

## P11D and benefit in kind

Crouch sees many contractors putting the costs of training through their limited company, but very few would think to include training as a benefit in kind and declare it on their tax return.

But, he cautions: "If you are a company director and your own company meets the costs of training that is not clearly to maintain and improve your existing skill set, then HMRC is likely to ask questions, because it may be judged that you will derive personal benefits from the training." The exceptions are general training to meet a statutory requirement, such as health and safety, or training to develop leadership skills.

Crouch advises Betty and other contractors to be very cautious about charging their new limited company for training undertaken pre-incorporation, and to check with their accountants if there is any doubt. "By all means, invest in improving your skills to make you a more attractive option for a potential client," he concludes, "but be careful what you then charge to your company."

Good luck with your contracting!

Contractor Doctor

Published: Thursday, December 3, 2009

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Steve Crouch, Crunch.co.uk