

Contractor expenses: don't get caught by HMRC's 'duality of purpose' trap

Mixing business and personal expenses can lead to problems with the taxman if claims for tax relief aren't carefully handled.

According to [HMRC](#), contractors can only [claim expenses](#) that are 'wholly and exclusively' incurred for the purposes of their business. On most occasions, contractors won't find this to be an issue.

But what happens if a visit to a client's site is required to a European city that might be renowned for its culture or cuisine, and the contractor chooses to stay an extra day or two and take in the sights, thus incurring 'dual purpose' expenses?

Fortunately, HMRC will allow a contractor's expenses when there is obviously a business purpose motivating the expense, as long as there is no other obvious purpose. This is a key point to understand because, if there is another purpose, HMRC will dispute the expense. Contractors should therefore beware of this 'duality of purpose' trap.

So, if a contractor incurs an expense that right from the start is partly for business and partly for personal reasons then, regardless of the nature of the expense, it will not be allowed by HMRC.

Business purposes

Let's say a contractor has to visit a client's site in France during the summer. They are required to attend meetings on-site over several days. The contractor decides to spend some of their spare time enjoying the countryside.

Because the primary and obvious purpose of the contractor's trip is to visit the client's site, and the contractor's use of their spare time to indulge in a little tourism, HMRC would be unlikely to dispute the expenses claim in a subsequent investigation.

As long as the contractor stuck firmly to the reason for the trip being purely business and the trips in the country were merely a pleasant side effect, and did not admit that they quite fancied going anyway, then the trip would probably be allowed.

'Duality of purpose'

However, if the contractor cheerfully admitted to an HMRC inspector that they thought the trip would be a jolly wheeze because the client's site happened to be down the road from a well-known seaside resort famous for its restaurants, the 'dual purpose' expenses would not be allowed for tax.

During interviews or correspondence with HMRC, it is best practice for contractors to have a professional advisor present or to be very careful what they say. Under no circumstances should they be led into making broader statements that would suggest to the inspector that there is a dual purpose for an expense.

As long as the expenditure was wholly and exclusively for the purposes of business, and the expenditure was not incurred for the purpose of gaining a personal benefit as well, then the expense is allowable and it does not matter if the contractor does gain some incidental personal benefit.

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Check expenses claim forms

Both [limited company](#) and [umbrella company contractors](#) are required to submit expenses claims forms that will detail the nature and purpose of the business expenses being claimed. Some umbrella company contractors only have to submit limited paperwork because their umbrella company has an HMRC [dispensation](#), but it is still advisable to retain all receipts.

The contractor's expenses claim forms could be examined in great detail by an HMRC inspector during an investigation, and the inspector would be looking for reasons to exclude expenses.

So contractors must ensure that only legitimate business costs are claimed. Not only that, the purpose for any expense, and in particular any trips, must clearly be stated as purely for business.

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