

Contractor doctor: can I claim for pre-incorporation personal expenses?

Dear Contractor Doctor,

I have recently started my own limited company. I incorporated the company on 28 April and started consulting on 29 April. In terms of my financial year I was going to run 1 May - 30 April.

I was technically working on a contract before that date and also incurring personal expenses in the run up to incorporating. What is the best way to account for this?

Thanks

Neil Whitelaw

Contractor Doctor says:

Contractors can claim for pre-incorporation personal **expenses**, but how they do this depends on how they were trading before incorporation.

As Barry Roback, Chief Executive Officer of **JSA Group**, which specialises in accountancy for contractors, explains: "If the contractor was working on a contract as a sole trader before incorporation, then the contractor would be self-employed and covered by tax schedule D. This is completely separate from **corporation tax** for a **limited company** and the contractor would have to submit a basic income and expenditure account for that period to HMRC."

This, according to Roback, is very simple if the contractor's earnings were below £64,000 and expenses below £30,000 in the pre-incorporation period. They would simply have to submit to HMRC their total income and total expenses, including travel and subsistence for the period, and they would pay tax on their profits.

But what if the contractor wanted to put **invoices** and costs through the company from the beginning, and a contract started before the contractor's company was incorporated?

"An invoice in a company's name pre-incorporation is invalid," continues Roback. "It is a legal requirement that invoices from a limited company must be issued with, at a minimum, that company's registered address and company number on the invoice. Clearly that is not possible if the company has not been incorporated."

So, any invoices submitted pre-incorporation would need to be re-submitted with the correct information once the company was in place.

Ideally, all pre-incorporation expenses should be in the name of the company. But in the case of many contractors, they might be buying an off-the-shelf company and so not even know its name when they are incurring pre-incorporation expenses.

"If the contractor was planning to invoice their client post-incorporation for work they have completed pre-incorporation, with properly prepared and legal invoices, technically there would be a question mark over claiming personal expenses, like travel and subsistence," says Roback. "However, from a practical perspective, providing the corresponding income is also included, most HMRC inspectors would accept a pre-incorporation personal expenses claim for items like travel tickets and meals."

Roback concludes: "An on-line accountancy practice or **company formation** agent can incorporate a company in less than two hours, so contractors need not find themselves in the situation of having to wait for incorporation before they can start invoicing their clients."

Good luck with your contracting!

Contractor Doctor

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