Contractor travel expenses, tax relief and the 24-month rule explained

Contractors can claim travel expenses from their limited company, which can in turn enjoy corporation tax relief, when working on a client's site. But this is only possible for as long as a contractor stays within HMRC's 24-month and 40% rules about temporary workplaces.

"Limited company contractors pay less tax on profits, and less cash out of their own pockets, when working onsite with clients, because they can legitimately claim travel costs," explains James Abbott, owner and head of tax at contractor accountant Abbott Moore. "Umbrella company contractors can also benefit from claiming expenses."

But HMRC has strict temporary workplace rules about the circumstances under which contractors can claim travel expenses, depending on the type and location of the contract and the time spent working at each client site.

Eligible travel costs: 'wholly, exclusively and necessarily'

"For most contractors, their permanent place of work is their home office. This means when working in a client's offices or another location, the contractor is working at a temporary workplace," says Abbott.

As long as the travel costs satisfy the usual 'wholly, exclusively and necessarily in the performance of duties' test, then the contractor can claim the cost of travel from their home office to the client's site, and back again.

Abbott warns contractors to ensure that the principal purpose of the travel they claim is for business, so they avoid the 'duality of purpose' trap: "If a contractor based in Glasgow is visiting family in Dundee, and then tacks on a visit to a nearby client so they can claim expenses, then this is likely to be challenged by HMRC."

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Record keeping and receipts are essential

Abbott notes that as long as the travel expenses qualify, then a contractor can claim:

The costs of public transport such as train, underground, tram, coach, bus and ferry journeys

Mileage for car journeys, road tolls and parking

Taxi fares

Air fares.

However, both limited company and umbrella company contractors must retain copies of receipts and tickets, and detailed mileage logs, so that they can prove the journey actually took place if investigated by HMRC.

"Although some service providers claim that contractors do not have to retain business travel receipts and records, this is incorrect," adds Abbott. "You must keep your receipts and be able to produce them if the taxman asks for them."

The 24-month and 40% rules

To qualify as a temporary workplace so that a contractor can claim travel expenses, the location must satisfy HMRC's 40% and 24-month rules. Abbott explains: "A workplace is temporary as long as contractor spends no more than 40% of their time there.

"If the contractor exceeds the 40% rule, then as long as they don't expect to work at that location for more than two years, then they can continue to claim travel expenses. This is known as the 24-month rule."

In practice, if a contractor is going to spend more than two days out of five during a typical working week on a client's site, then they have to work to the 24-month rule.

How the 24-month rule works

This, according to Abbott, works on the basis of expectation: "As soon as a contractor knows that they will be spending 24 months or more at a temporary workplace, then the location ceases to be a temporary workplace and the contractor cannot claim expenses."

He gives an example: "Let's say a contractor wins a 12-month contract with a bank. For the first 12 months, the contractor can claim travel expenses. If they win a six -month extension, they can continue to claim expenses because the duration of the time spent at the workplace will be 18 months.

“But if at 18 months the contractor was awarded another 12-month extension, then at that point they must stop claiming expenses. That’s because HMRC’s rules say that at the point when there is an expectation of spending more than 24 months working at the location, then it immediately ceases to become a temporary workplace and expenses cannot legitimately be claimed.”

If the contractor only had a five-month extension, then they could continue to claim expenses right up to the last minute before they reached 24 months.

Resetting the 24-month rule

“A crucial point for contractors to understand is that where their contract specifies a place of work then the client’s identity is irrelevant to the application of the 24-month rule,” highlights Abbott. “Just resetting the paperwork does not matter. In order to reset the 24-month rule clock, it is the location and journey and not the client or contract which matters.”

So, for example an IT contractor working in the City of London might have a contract to work at Bank A in Moorgate for 24 months. They then win a contract with Bank B, two doors down from Bank A. This is the same location for the purposes of the travel rules, and just because it is a new client at a technically different location does not matter.

“HMRC’s rules say that the cost of the journey or the journey itself has to change,” says Abbott. “The reality is that most contractors working for clients in the City or in London Docklands cannot reset their 24-month rule clock, despite changing client.”

HMRC specifically uses an example of an IT contractor when illustrating the 24-month rule, which Abbott confirms clearly sets out HMRC’s views on contractors resetting the clock.

Taking a break to reset the clock

“HMRC does not specify what taking a break actually means. Practically speaking there is no minimum time period, so contractors can’t simply say, ‘I have taken an X-week break so the 24-month rule is reset,” says Abbott.

But as he explains, the 24-month rule could be reset if, for example, a games developer usually contracted with a small number of closely co-located clients in central Dundee wins a lengthy contract in Glasgow.

“A contractor will have to have left a location long enough so that when they return, the period they were there before is not more than 40% of the time over the last two years.”


James Abbott

Owner

Abbott Moore LLP

James Abbott is the owner of Abbott Moore LLP and often speaks on freelancer / contractor tax matters. He has his own growing portfolio of contractor clients.

Abbott Moore LLP are PCG Accredited Accountants and specialise in providing tax advice to freelancers as well as dealing with their year end accounts and tax returns. Read Full Profile...

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Abbott gives an example:

A contractor is returning to a former client on 1 January 2014, at the same site

The contractor last left that client on that site on 31 March 2012, after a three-year contract

The contractor must look back from 1 January 2014 and work out how much time was spent with the client in the last two years

The contractor had only been with the client during January, February and March 2012 over the last two years, making three months

Three months is less than 40% of two years, so the contractor can reset the clock.

Abbott concludes: “Realistically, for a contractor to reset the clock as a result of breaks from a given location, they need to be taking breaks from that location for 15-16 months each time.”

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