

Benchmark rates for contractors working overseas

Limited company contractors [working overseas](#) can take advantage of overseas benchmark rates, which provide a simple way to claim expenses free of income tax and National Insurance Contributions (NICs).

"For particular countries – and in some cases for specific areas within these countries – HMRC provides daily scale rates which contractors can claim expenses for," says James Abbott, founder and head of tax at contractor accountant [Abbott Moore](#), who highlights that this is a perk that relatively few contractors are aware of.

"Contractors can use these scale rates as an alternative to keeping track of specific expenses, such as travel, subsistence and accommodation."

Benchmark rates for contractors - explained

"The first thing to remember is contractors use overseas scale rates to claim tax-free expenses from their own limited companies, and so they are completely unconnected to what the contractor would charge their client," Abbott continues.

HMRC's [worldwide subsistence payments guidance](#) highlights numerous rates that the contractor can claim. These include a "room rate" per night; a "total residual rate", which covers the cost of meals and travel on a daily basis; and a "24 hour rate", which is the sum of the previous two rates.

Abbott adds that the rates offered in each city around the world are estimates based on the cost of living there. For example, for contractors working in Australia, the 24 hour rate in Brisbane is currently 156.5 AUD (£83.20), whereas it is 236.5 AUD (£125.75) in Melbourne.

Whilst overseas benchmark rates can be used to cover accommodation, travel and subsistence expenses incurred within the country of work, they cannot be used by the contractor to claim for expenses incurred en route, such as the cost of a taxi to the airport in the UK.

Qualifying for overseas benchmark rates

Contractors can find it easy to take advantage of overseas scale rates, although the location must qualify as a [temporary workplace](#). According to HMRC's guidance in [EIM32075](#), a workplace ceases to become a temporary workplace if the contractor works there continuously for more than 24 months.

HMRC defines "a period of continuous work" as one where 40% or more of a contractor's time is spent at the location. Providing the contractor doesn't spend more than 40% of their time at the client's site for longer than 24 months, they should be free to claim the benchmark rates.

Setting up an overseas scale rate payment is equally straightforward. Contractors were previously required to apply for a dispensation through a P11D form to claim the scale rate and avoid having to report the expenses. P11D dispensations have recently been repealed, meaning contractors can simply claim the scale rate to enjoy the same benefits.

However, Abbott notes that limited company contractors who are deemed to be within IR35 will not qualify for these rates, in line with the newly implemented changes to travel and subsistence legislation in the UK.

Tax-free expenses minus the administration

Other than being able to claim income tax and NICs tax relief, the main benefit to claiming overseas benchmark rates is not having to document every expenditure. Whilst contractors have to provide some proof that they have incurred the expenses they claim, Abbott notes that the effort involved is minimal.

"Obviously you have to prove that you were there and that you spent money on various things, but it's a lot easier from an administrative point of view when you're not having to keep hold of every receipt."

Abbott explains that contractors need to document that they were in the country at the time, suggesting that a copy of an invoice addressed to the client showing location would be a good start but HMRC may ask for travel documents for example.



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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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"Finally, we always advise contractors to keep hold of a few receipts as that would be the best proof of incurring the expense," he concludes. "They don't have to add them up, but if HMRC requested proof that the contractor was paying for breakfast, for example, they could have some receipts handy."

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