

What Expenses Can I Claim?

Expenses are the costs that you incur in your business and these should all be recorded in your accounting records. You may not be entitled to tax relief on all of the expenses, but it is still important that they are recorded. If you do not record them, you will not have a true picture of how much money you are earning from the business.

The amount of profit that you make is not always the amount of profit that is taxable, and this is because not all expenses are eligible for tax relief.

Allowable expenses

Allowable expenses are those that are incurred 'wholly and exclusively' for the purpose of your business.

The following categories are typical allowable expenses:

- Cost of goods bought for resale or goods used
These are costs incurred to create your product or provide your service
- Car, van and travel expenses
Car, van and even bicycle costs (See guidance on Travel and Mileage)
Train tickets, taxi's, parking fees (NOT fines and penalties)
Subsistence (See guidance on Other difficult expenses)
- Wages, salaries and other staff costs
Payments you make to your staff
Subcontractors such as virtual assistants, freelancers etc
- Rent, rates, power and insurance costs

Use of home as Office (See guidance on Working from Home)
Professional indemnity, public liability, etc.
- Repairs and renewals of property and equipment
Repairs are allowable but an improvement is not.
- Accountancy, legal and other professional fees
These are all generally allowable providing they relate to the trading activity and are not a capital expense.

What Expenses Can I Claim?

- Interest and bank and credit card etc. financial charges

These are allowable for a business bank account or credit card but not if you use a private bank account or credit card. It also includes Paypal and Eventbrite expenses etc. as well as card machines.

- Phone, fax, stationery and other office costs

Home landline – all of the business calls are allowable and a proportion of the landline (based on the ration of business use to total use)

The business us of mobile phone, skype and internet costs are allowable

Computer costs (but not the cost of purchasing the computer)

- Other allowed business expenses

Advertising

Networking

Certain professional subscriptions

Training (see guidance on Other Difficult Expenses)

Entertaining (although entertaining customers is not an allowable expense for tax purposes)

Capital items such as the cost of a new computer, desk or camera (although these may be treated differently for tax purposes)

Anything else that is allowable that doesn't fit elsewhere.

Disallowable Expenses

- Food and drink (although there are exceptions)
- Parking tickets and speeding fines
- General clothing
- Commuting from home to your place of work
- Any personal use

What Expenses Can I Claim?

Travel and Mileage

Travel

You are able to claim the cost of any travel that is undertaken solely for the purpose of your business. If you travel to London to spend the day shopping and you also arrange a business meeting the train fare would **not** be an allowable cost because it was not incurred solely for the purpose of attending the business meeting.

In addition to keeping a copy of receipts for trains, taxi's, parking fees etc. it is also advisable to make a note of where you went, the purpose of the journey and who you saw. This can be done simply on a sheet of paper with the various receipts stapled to it which should then be filed in your accounting records.

Mileage

You can claim mileage costs when you travel by car, van or even bicycle. This can be done using a **fixed rate** or the **actual cost**. The fixed rate is by far the easiest method.

Once a method has been selected it must be used from one year to the next and can only be changed when you change your car.

If your turnover is above the VAT registration threshold you cannot use the fixed rate.

Mileage records

Regardless of which method you apply you have to keep a record of the miles that you travel for business use, the date you travelled, where you went (e.g. Sevenoaks to London) and the purpose of the journey.

If you are using the actual method you will also need to keep a record of miles travelled at the start and end of the year according to your car milometer. Just write them in your diary.

Using the fixed rate method

Simply determine the total number of miles that you have travelled for business purposes from your records and if this is less than 10,000 claim 40p for every mile travelled. If the total miles is above 10,000 you can claim 25p for the miles above this level.

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The easiest way to record this in your accounting records is to record the total amount each month and pay yourself that amount from the business.

Using the actual method

Determine the following:

1. The total number of **business miles** travelled during the year.
2. The **total miles** travelled during the year. i.e. the total miles at the end of the year according to your milometer less the miles at the beginning of the year.
3. The total costs of running your car during the year. You will need to add up all of your petrol, insurance, repair, MOT and RFL costs.

The cost allowed is:

The total costs (3) x the number of business miles (1) divided by the total miles (2)

To us this method you have to keep the receipts for all of the costs.

Which Method Should I Use?

The fixed rate amount is the easiest method and the rates are quite generous.

However, if you have an expensive car and are doing a lot of business miles it may be worth using the actual method as you will also be able to claim capital allowances. Please ask for advice if you wish to claim capital allowances as this can be a complex area.

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Other Difficult Expenses

Subsistence

The cost of food and drink is generally not an allowable expense because it is not wholly and exclusively incurred for your business. You have to eat and drink to live.

There is an exception to this and that is when the expenses are incurred when travelling on business.

Commuting

The cost of travelling from your home to your place of business is commuting and is not allowable. However, if you work from home and travel to see your clients, the cost of this travel is allowable.

Clothing

General clothing is not allowable even if it is only used for work such as a suit.

Allowable clothing costs include:

- Uniforms
- Costumes
- Protective clothing

Training and courses

These are allowable if they are part of continuing professional development but not if you are acquiring a new skill.

Any workshops, courses and webinars on business related matters such as social media, blogging, attracting clients etc. can be claimed as an allowable marketing cost.

Entertaining

If you buy lunch or coffee for say a client or a business acquaintance this is entertaining and although a business expense is not an allowable cost for tax purposes.

However, the cost of taking a member of staff out for lunch or coffee is allowable for tax relief.

What Expenses Can I Claim?

Working from Home

When you work from home you are able to claim a proportion of your household costs. There are two ways of doing this and these are based on a percentage of the actual cost or a fixed cost. These rules are only for self-employed individuals and do not apply to directors working from home.

Actual Cost Method

Expenses broadly fall into two categories, fixed and running costs.

Fixed costs

These costs relate to the whole house and have to be paid regardless of whether it is used for business purposes or not. A proportion of these costs can be claimed based upon area and time used. They include:

- Buildings insurance
- Water rates
- Council Tax
- Mortgage interest (not any capital element that is included in the monthly payments)
- Rent
- Repairs that relate to the whole house such as exterior painting or roof repairs.

Running costs

There are some expenses where the total bill may vary depending upon the amount of trade use. They include cleaning, heat and light and metered water.

If a cleaner cleans the office as well as the living rooms a proportion of the costs will be allowed.

The additional heat and light costs may be significant because of the business and if this is the case the costs should be considered separately. If not, they can be treated in the same way as a fixed cost when calculating the business element.

In cases of heavy usage, the trade part of the property may be separately charged and fully allowable.

A proportion of the repairs to a specific room used for business purposes are allowable (such as redecorating).

How to calculate the allowable business cost

1. Calculate the total number of hours you work from home each week.

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2. Calculate the total number of hours you work from home as a percentage of the number of hours in the week (there are 168 hours in a week).
3. Calculate the approximate proportion of the house you use for working (if you use one room and have 8 in the house that would be 12.5%).
4. Calculate the total fixed costs of running the house by adding up all of the costs in the accounting year).
5. Multiply the answer in 2 by 3 by 4 to arrive at the allowable amount of fixed costs.
6. Now add a proportion of business use of running costs (i.e. those not already included in the calculation) by multiply the cost by the answer in 2.

Fixed Cost

If you work in your home for more than 25 hours a month you can claim a flat rate charge each month. The flat rates are as follows:

| Numbers of hours worked | Flat rate per month |
|-------------------------|---------------------|
| 25 or more | £10 per month |
| 51 or more | £18 per month |
| 101 or more | £26 per month |

Which Method Should I Use?

It is worth comparing the figures under each method. The actual method often gives significantly higher amounts and the additional tax saving often outweighs the pain of doing the calculation. However, if you really can't face doing the calculation then claim the flat rate amount.

If more than one business operates from your home the costs would have to be apportioned and it may be simpler for you both to just claim the flat rate.

Please note that the rules above are for sole traders. If you are operating through a company the rules are slightly different.

The fixed cost method is replaced by a daily rate of £4.

Alternatively, rent can be made by the company which is equivalent to the calculation of the actual cost method. The director has to declare the rent in her personal tax return but will have costs of an equivalent amount to set against that charge. The net effect is therefore nil.