

Expenses - Claiming what is Allowable

In UK law, self-employed persons business expenses are allowed for tax if:

1. They are wholly and exclusively incurred for the purpose of the business and
2. They are properly documented

Okay, that is the last boring bit on this leaflet, I promise. The important bit to latch onto is the second bit - make sure you get documentation for all your expenses.

The object of the exercise is to get as many expenses as possible against your income, *without the tax inspectors later disallowing them and charging you interest and penalties on your mistake.*

Most direct expenses are obvious. If you are a builder and you buy bricks, sand and cement in order to build someone an extension, these are all allowable – but not if you deliver the bricks, sand and cement to your own home to build yourself an extension! (And tax inspectors will look for this).

Whatever business you are in, if you divert some of your product or raw material to your own use, you should tell us about it and make a small adjustment in the accounts. It is not worth waiting for an inspector to find it, assess the value and charge interest and penalties.

Before we move onto overheads here are two tips for keeping your profits and tax down to a minimum:

1. You decide when to raise a sales invoice (not the taxman), if you choose to invoice a week after your yearend rather than a day before, you delay taking profit into the new year, (but not if you have already been paid – sales are taken at the earlier of invoicing or receipt of payment)
2. If you have a yearend stock which cost you £1,500.00, but £500.00 of this will never be used/sold, your accounts stock value is £1,000.00 not £1,500.00. You are entitled to provide for obsolete stock. This reduces your taxable profits by £500.00.

The main problems with overheads fall into two categories:

1. Costs with split (Private/Business) use.
2. Expenses to do with sustaining the proprietor (or sometimes to staff).

I will consider a few of these here.

Accommodation

Many self-employed must use their home as their office and in some cases workshop, yard etc.

In general the inspectors will allow a reasonable claim for 'use of home' depending on how much use you make. If you have a large claim for 'use of home' the Inland Revenue may want to claim Capital Gains Tax pro-rata when you sell your home – but with a £8,500.00 personal allowance, indexation, tapering relief etc, this is usually a remote danger.

The Spouse or Children

If your spouse or children help with your business, you can claim an amount that is 'reasonable' for the amount of work that they do but you must actually make payment. If your spouse has another job or you exceed the de-minimus limits, you must also operate PAYE.

Vehicles

There are a number of techniques, which are accepted for allocating vehicle costs between business and private. The most common is to record all vehicle costs then allocate the disallowable private proportion on a mileage basis. In theory, mileage records should be maintained.

Alternatively the self-employed person can keep a log of business miles and recharge this to the business at a rate agreed with the Inland Revenue.

Of course expenses relating to vans, lorries and vehicles used exclusively by employees will usually be wholly allowable in the business, (although there may be other reporting requirements, for employee benefits, for example).

Sustenance and Staying Away

By and large payments for food and drink for proprietors and staff are not allowable. For example entertaining clients is no longer allowable – but where an employee or proprietor has to stay away from home on business, the Inland Revenue will accept the costs of overnight accommodation including meals as a legitimate expense. A drink with a meal will probably be accepted but not a bar bill! The only venue within 25 miles of your normal place of work whose bill will be accepted is the one that hosts the Christmas party (upto £75.00 per employee) If you pay for sustenance to reward employees who have worked overtime this may be allowable on the business, but a 'taxable' benefit for the employee! The business can pay for tea and coffee for employees.

Clothing

Generally not allowable, but items bought wholly and exclusively for the purpose of the business are allowable, typically safety wear, overalls, uniforms but not 'jeans' or 'work shirts' even if this is what you wear to work. After all, I wear a suit and I can't claim for that!

Hobbies

We call this 'sponsorship' in the accounts! Inspectors are often quite lenient with businesses on this front. You should keep records of the advertising or corporate entertaining benefit to your business arising from the sponsorship. Photos showing the business name might help.