

BUSINESS EXPENSES: THE BASICS

FAST FACTS

- ✓ Business expenses reduce your profit and therefore reduce the tax you're liable to pay.
- ✓ Expenses must be spent doing business or attracting new business.
- ✓ It is vital that you keep receipts for your **business** expenditure.
- ✓ See the expenses information sheets included in this pack for a detailed list of expenses you can claim.

Wholly, Exclusively, and Necessary

The key rule for **business** expenditure is "wholly, exclusively and necessary". This means the expenses must be incurred when doing business or attracting new business.

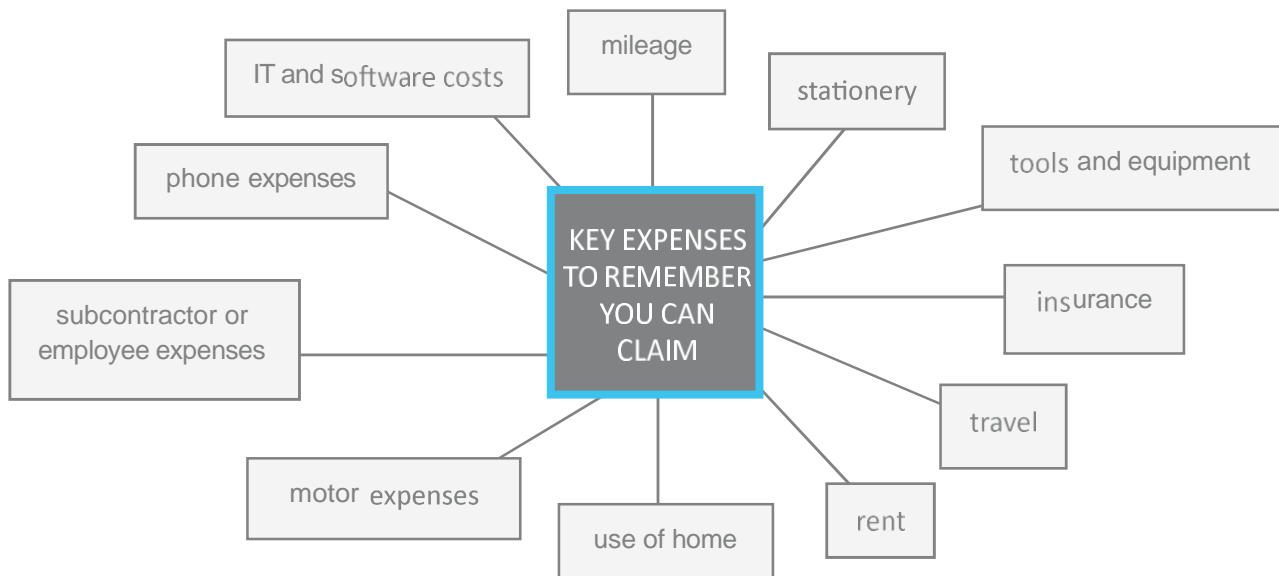
Keeping track of all your **business** expenses is vital as tax deductible expenses reduce the tax you need to pay at the end of the year. Take time to familiarise yourself with what can be claimed as this can save you money when it comes to paying your tax bill.

You need to keep a receipt for everything you buy for the **business** and keep this for at least seven years. If you're a **VAT** registered business you need to make sure you get a **VAT** receipt. You can store receipts digitally rather than keeping a paper original if you prefer.

The rules for expenses differ for whether you're a **limited company or sole trader**, and you can find more detail about this in the expenses information sheets which accompany this pack.

For **limited companies**, if you as the director spend money personally, you can claim this back from the **business**. This can either be as an expense claim or as a loan to the **company** which you later claim back. You can also repay 'out of pocket' expenses paid for by members of staff.

BUSINESS EXPENSES: THE BASICS



There are hundreds of others but these are the most common to keep in mind! Please see the relevant 'Expense Information' sheet for more details on the expenses above, as well as many others you should look out for.

Staff costs

Staff costs are also a deductible expense for both **limited companies** and **sole traders**. We discuss the optimal sole director salaries further in the 'Tax' section of this guide. When hiring staff you need to think carefully about whether they will be employees or contractors. There are lots of different rules around this and many considerations to think about. We cover these in our supplementary guide on staff costs. Please contact 2 Sisters Accounting for more information about this guide.

Pre start up expenses

Often when starting a **business** there are costs incurred before the **business** starts to trade properly. The good news is you can get a tax deduction for these items. Make sure you keep all receipts and invoices for amounts you have spent before starting trading or setting up your **limited company**.

There are special rules for expenses incurred before trading commences. Generally, expenses incurred prior to trading starting are allowable if they were incurred within seven years of trading starting, as long as they would have been allowable once trading started. This is only allowed when the expenses are used in the **business** once it starts trading. The expenses are treated as having happened on the first day of trading.

When you run the **business** through a **limited company** you submit an expense claim to the **company** once it is set up and it can pay you back as if it was an expense from after the **business** started. You cannot claim for the cost of the **company** formation itself for a tax deduction but the costs can still go through the **company**.

SOLE TRADER EXPENSES

ACCOMODATION

If travelling to a temporary workplace or travelling for business reasons you can claim for the cost of your accommodation. The amount claimed must be reasonable and not excessive. While claiming for accommodation you can also claim for meals on overnight business trips. You must keep receipts to prove the amounts spent, and the amounts must be reasonable.

ACCOUNTING FEES

You can claim accounting fees for the preparation of your sole trader accounts.

ADVERTISING

You can claim full tax relief on marketing and advertising like Facebook ads, business cards and trade websites.

BROADBAND

If you work from home using your home internet, you can claim the percentage of the broadband that is used for business use. To do this you take the entire bill and judge how much is personal use. For example, the bill is £50 per month, and 75% of your internet usage is personal. This means £12.50 per month is an allowable expense.

CAR AND VAN EXPENSES

For a business vehicle there are a number of things you can claim for:

- Vehicle insurance
- Repairs and servicing
- Hire charges
- Breakdown cover
- Fuel
- Parking
- Vehicle tax

You cannot claim for any fines or tickets incurred. You can only claim these if you do not claim the simplified mileage rates listed below.

CHARITABLE DONATIONS

Charitable donations would be considered as if they'd been made by you personally. If you donate via gift aid you can claim the tax relief at the relevant tax rate.

CLIENT ENTERTAINMENT

There is no tax relief for client entertainment. This includes gifts.

CLOTHING

The company can provide you with protective clothing that's required for you to do your job, such as a high-vis jacket. They can also provide a uniform that can only be worn at work to do your job, including a t-shirt with the company logo on it. Normally, claiming for any clothing that could be part of an everyday wardrobe is not allowable – so if you have to wear a suit for work but it could be worn outside of work then you cannot claim for the cost.

INSURANCE

You can claim for insurances that are needed for your business like professional indemnity or public liability insurance.

MILEAGE - PRIVATE VEHICLE

You can choose to claim your vehicle costs by claiming HMRC's basic rates for travelling. This is 45p per mile for the first 10,000 car miles and 25p per mile for miles after that. Unfortunately, sole traders cannot claim for bicycle mileage.

OFFICE EQUIPMENT

Printers, computers, chairs, desks, shelves etc. are all claimable if they are bought for business purposes. They will need to be used in the majority by the business to avoid any Benefit In Kind (BIK) taxes. This also covers stationary, trade tools, and postage.

PENSION PAYMENTS

As a sole trader, pension payments unfortunately are not a business expense. You can, however, get tax relief on contributions you make personally into your scheme.

PROFESSIONAL SUBSCRIPTIONS

If you have a subscription to a professional body that is directly related to your trade then this will be allowable.

TELEPHONE

Similarly to broadband expenses phone bills must be split between business and personal use. If you review your previous 3 months bills, work out how much is personal and deduct this from the total cost to leave the allowable business expense. This can be done in percentages as with the broadband above.

TRAINING EXPENSES

You can claim for training that is related to your field and that is improving existing skills and knowledge.

TRAVEL EXPENSES

If you are travelling for business reasons and the travel is not ordinary commuting, you can claim the costs. This means if you must visit a client's office and are responsible for paying for the travel or you are attending a training course you can claim the cost of the travel as a business expense. You cannot claim for travel between your home and permanent workplace.

USE OF HOME

There are two different options for sole traders to claim their use of home expenses. You can either use HMRC's simplified method or the actual cost basis. The flat rate basis is calculated based on the hours spent working from home and does not include telephone or internet costs.

25 to 50 hours per month – £10 per month

51 to 100 hours per month - £18 per month

101 and more hours per month - £26 per month

The actual cost basis is calculated taking a percentage of your household bills, dividing these by the number of rooms, and then by the percentage that you use each room for business purposes.



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LIMITED COMPANY EXPENSES

ACCOMODATION

If travelling to a temporary workplace or travelling for business reasons you can claim for the cost of your accommodation. The amount claimed must be reasonable and not excessive. While claiming for accommodation you can also claim for meals on overnight business trips. You must keep receipts to prove the amounts spent, and the amounts must be reasonable.

ACCOUNTING FEES

You can claim the full cost of accounting services that are incurred by your limited company. If the limited company pay for personal tax affairs, then this will be taxable as a benefit in kind.

ADVERTISING

You can claim full tax relief on marketing and advertising like Facebook ads, business cards and trade websites.

BROADBAND

If you work from home using your home internet, you cannot make a claim if the broadband was already in place, unless you can clearly split the business from the personal element. Having two broadband lines could show one line is 100% for business. If you have no broadband contract at home prior to working from home and install this to be able to work from home these costs can be reclaimed from your company without any benefit in kind charges.

CHARITABLE DONATIONS

The following are allowable as gifts to charity:

- money
- equipment or trading stock (items your company makes or sells)
- land, property or shares in another company (shares in your own company don't qualify)
- employees (on secondment)
- sponsorship payments.

CLIENT ENTERTAINMENT

There is no tax relief for client entertainment. This includes gifts.

CLOTHING

The company can provide you with protective clothing that's required for you to do your job, such as a high-vis jacket. They can also provide a uniform that can only be worn at work to do your job, including a t-shirt with the company logo on it. The company can give these clothes to you outright or make them available to you, and although the company has to report these to HMRC on form P11D there's no extra tax for you or for the company to pay. If the company provides you with other clothing, this may be a taxable benefit. Normally, claiming for any clothing that could be part of an everyday wardrobe is not allowable, so if you have to wear a suit for work but it could be worn outside of work then you cannot claim for the cost.

MILEAGE - COMPANY VEHICLE

If the company owns the vehicle you are driving then the company can claim for the cost of the fuel. We would also recommend keeping a mileage log to prove the fuel claimed is for business miles. You also need to think about company car rules if the business owns the vehicle.

MILEAGE - PRIVATE VEHICLE

When you use your personal car or van to get to a temporary place of work and pay for the petrol personally then you are entitled to reclaim this from the company. This will be at HMRC's standard mileage rates.

OFFICE EQUIPMENT

Printers, computers, chairs, desks, shelves etc are all claimable if they are bought for business purposes. They will need to be used in the majority by the business to avoid any Benefit In Kind (BIK) taxes. This also covers stationary, trade tools and postage.

PENSION PAYMENTS

Once your company has set up a contract with a pension provider it can make payments into your pension and receive 100% tax relief as an allowable business expense. We'd always suggest seeking advice from an Independent Financial Advisor (IFA) regarding pensions.

PROFESSIONAL SUBSCRIPTIONS

If you have a subscription to a professional body that is directly related to your trade then this will be allowable.

STAFF ENTERTAINMENT

Your company can host employee events as a tax-free benefit providing the following conditions are met. This allowance can be used as one event e.g. a Christmas party, or across multiple events like a Christmas and summer party. Your employees may invite a plus one, but you must not exceed an expenditure of £150 per head (including VAT). The event must cater mostly for staff. For example, expenses for one director and a plus one would be acceptable and would give you a budget of £300. However, if those attending are not mostly employees then it would be difficult to argue the event's main purpose is to entertain staff.

TELEPHONE

If you have separate landline phone contracts for personal and business use this makes it clear there is no personal benefit and the full cost of the business line is allowable. If your company pays your entire personal phone bill, then BIK tax rules come into play. For mobile phones, provided the contract is between the company and the mobile phone provider, the company can claim all costs as an allowable expense. The company can provide each employee with a mobile phone.

If you make business calls on your personal mobile or landline phone, this is an allowable expense. You can also reclaim the VAT element of the business calls, if applicable, but you won't be able to reclaim any part of the line rental, as you would incur this cost anyway. It is very difficult to separate the cost of business and personal calls as most providers now offer packages instead of charging for individual calls. If you can't separate the business element of your personal mobile phone usage, you cannot make a claim, due to the duality of purpose rules, as any business calls you make incur no extra cost on top of the tariff you already have for personal calls.

TRAINING EXPENSES

You can claim for training that is related to your field and that is improving existing skills and knowledge.

TRAVEL EXPENSES

If you are travelling for business reasons and the travel is not ordinary commuting, you can claim the costs. This means if you must visit a client's office and are responsible for paying for the travel or you are attending a training course you can claim the cost of the travel as a business expense. You cannot claim for travel between your home and permanent workplace.

TRIVIAL BENEFITS

You don't have to pay tax on a gift or benefit for directors or employees if all of the following apply:

- it cost you £50 or less to provide
- it isn't cash or a cash voucher
- it isn't a reward for their work or performance
- it isn't in the terms of their contract
- directors limit is £300 per year

USE OF HOME

You can claim £312 a year as a director of a limited company for use of your home without providing receipts for HMRC. You must be able to prove you do use your home for business purposes.

VEHICLES

If the company owns the vehicle there are a number of things you can claim for:

- vehicle insurance
- repairs and servicing
- hire charges
- breakdown cover
- fuel
- parking
- vehicle tax

You cannot claim for any fines or tickets incurred.



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