

## Self – Employed - What expenses can I claim?

### What expenses can I claim for tax purposes?

An expense or part of an expense (when you can identify a suitable proportion) can be claimed as a deduction from taxable income for tax when it is incurred for the purposes of your business.

Specific rules in statute and almost 100 years of tax case law have made this topic very complicated.

### MOTOR EXPENSES

There are two ways of claiming motor expenses if you are self-employed. You can choose either, but once you have chosen you should keep the same method throughout the life of that car.

- Claiming a mileage allowance: you can claim a mileage allowance of 45 pence per mile (25p after the first 10,000 miles) for a car, or 24p per mile for a motorbike.
- Using actual expenses:
  - Petrol, oil and other consumables, such as anti-freeze and tyres
  - Repairs and insurance excess
  - Road fund licence, servicing and MOT
  - Tolls and road charges

However, you can only claim the business element, so if you use your car 50% for personal use you can claim 50% of actual expenses. You should keep a mileage log to justify the % allocated – If you can't do it for the whole year, do it part of the year use that % for the year.

### TRAVEL COSTS

The cost of travel from home to your normal place of business is not allowable, however travel to a temporary workplace is allowable, as is any other journey undertaken solely and exclusively for business purposes (including going shopping for stationary and to the bank to pay some cheques in)

### What journeys can I claim for?

If a journey is undertaken wholly and exclusively for business, all the costs associated with travel should be allowable for tax.

Home to work travel may qualify as a business journey (and so the cost will qualify for tax relief) where:

- Home is the main or only workplace or the operating base of the business.
- The trade or profession is a travelling occupation, or the nature of the trade is itinerant and the business base radiates around home.

### What Expenses can I claim?

Travel expenses typically include:

- Motoring costs: road fuel, repairs and spares (or mileage allowances)
- Train and bus fares
- Tolls and road charges
- Parking
- Subsistence and accommodation

### What is Subsistence?

Subsistence is the tax word for food and drink! You can claim:

- The "reasonable" costs of food and drink can be claimed as an expense in conjunction with business travel. Reasonable is not defined by the tax law, so this takes its everyday meaning.
- For subsistence to be allowable the taxpayer needs to be travelling to a place in the course of carrying on their trade or profession or staying away on business. So, travel has to also qualify as business travel.

Subsistence claims must be based on receipts, not on round sum allowances, and therefore it is critical to keep receipts – you can write them down on a napkin if there are no printed ones, but you need to have some form of record.

If you are inviting a customer, a soft drink while you are discussing business would be allowable (as refreshment), however any more would be treated as entertainment and not allowable. If you are meeting the customer away from your normal place of work, however, you should be able to claim your own meal as subsistence – but unfortunately not theirs.

## WORKING FROM HOME

If you are self-employed and work from home:

- You can claim all the costs that are incurred for business purposes.
- You may also claim a proportion of all the other costs of running your home, such as light and heat, insurance, council tax, repairs, cleaning and mortgage interest.
- There is no set method of apportioning these other costs; it depends on what work is carried on at home. An element of judgement is needed but any amount claimed must be reasonable.
- When you are claiming expenses then ensure that you pay them (they can't be paid by someone else).
- You cannot rent yourself your own home, but you can rent a jointly owned asset.
- If a part of your home is used exclusively for business, then you will end up paying Capital Gains Tax on part of the profits when you sell it. You may be assessed for business rates if the business is large enough, and there may also be planning issues.

### Actual Costs – How do you calculate it?

There is no set formula; you must use actual costs (for which you need receipts) and should use the method which you consider is most fair. For example:

1. By no. of rooms.
2. By sq. metre, of floor area, if you have the measurements to hand.
3. By electricity /gas metre, if it is possible to make test readings with all other household appliances switched off.
4. By water meter, if metered, not if unmetered.
5. By proportion of time in use.

### Fixed Rate Allowance

From 6 April 2014 taxpayer may claim a monthly fixed rate allowance for home working instead of making a claim for their actual expenditure: this is a low figure and so actual expenditure may yield higher tax relief.

If an individual spends only a few hours a week working from home, or just wishes to cut down on bookkeeping then a fixed rate expense claim may be claimed instead of claiming a proportion of actual costs.

The rate applicable is based on your calculation of the number of hours that you work at your home/homes "wholly and exclusively" for the purposes of the trade.

No of hours worked (per month)	Amount (per month)
25 to 50	£10
51 to 100	£18
101 +	£26

- You will need to retain some sort of log to establish how many hours you are working, and if the period is less than a month reduce it pro-rata.
- You can use the fixed rate one year and actual expenses the next. So it is worth keeping receipt and compare both methods every year.

### TRAINING COSTS

A sole trader or partner cannot always claim his own costs of training for tax purposes.

The Costs of obtaining a new skill or qualification cannot be claimed as an expense as it is considered an investment. However the costs of maintaining work-related training and professional development is allowable. If the training has mixed purposes it is not allowable either.

The costs of travelling to a training course will also only be allowable if the cost of training itself is allowable.

The cost of training staff is always allowable, but may be treated as a Benefit in Kind (so taxable on the employee) if the benefit is primarily personal.

### REPAIRS, MAINTENANCE AND IMPROVEMENTS

You can generally claim as expenses repair and maintenance costs, but any enhancements or improvements to an asset is a capital expenditure – you may be able to claim tax deductions for these separately

The rules are quite complex, so where repairs are likely to be substantial, discuss the tax implications of what is being done prior to commencing work. Builders and architects are not tax advisers, so best discuss it with your accountant!

## EMPLOYING THE SPOUSE & FAMILY

- A spouse or other family members may be employed by a sole trader.
- Wages must equal to or be above the current National Minimum Wage.
- Ensure that remuneration paid is reasonable for the work undertaken as HMRC may otherwise challenge it.
- Employers National Insurance is at 13.8% - it may be cheaper to bring a spouse into the business as a partner so that profits can be shared.
- Ensure wages are physically paid, and paid into the spouse's own bank account.
- Review additional benefits that may also be paid as part of the whole package such as pension, mobile phone, life insurance etc (See our guide to tax free benefits for employees);
- Similar principles apply to other family members as to spouses

## ENTERTAINING

### Entertaining clients, customers or third parties

- The cost of entertaining clients, customers or third parties in relation to the business is specifically disallowed as a deduction for tax purposes
- When a room is hired for an event and entertaining also takes place it can be possible to claim tax relief on the cost of the room.
- The cost of entertaining should be separately analysed in the accounts so that it can be added back for tax purposes.

### Entertaining employees

- Where an employer entertains his staff the cost is not treated as entertaining. It is staff welfare so it is allowable for tax purposes.

### Entertaining & VAT

- Input VAT is fully reclaimable on the cost of staff welfare (this is not regarded by HMRC as entertaining).
- If you are also entertaining UK clients as well as staff, you have to disallow a proportion of input VAT (based on the numbers of clients v staff).
- If the event is to entertain UK customers and your staff are there to look after the customers, the whole event is regarded as "entertaining"; you are blocked from any reclaim of input tax.