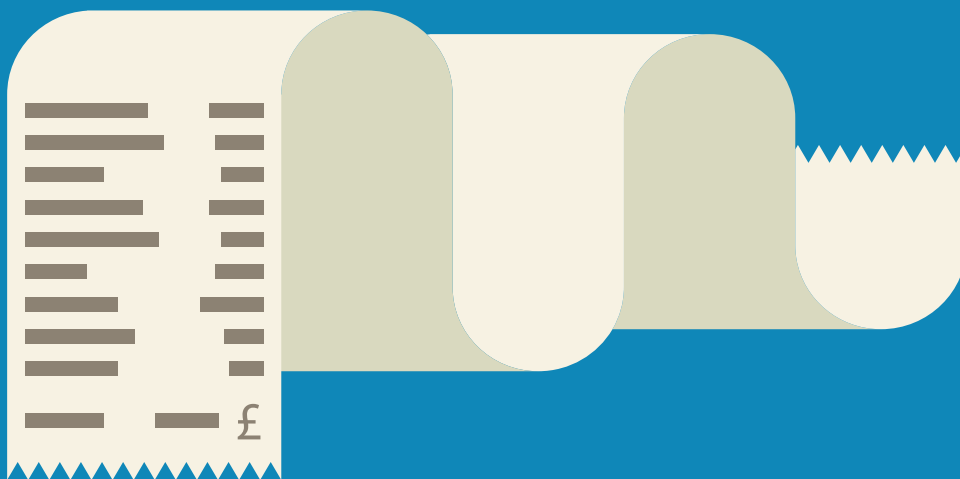




Business Expenses Guide for SMEs and Sole Traders



Contents

Introduction

Claiming limited company expenses

- Accommodation
- Accountancy fees
- Bank charges
- Business insurance
- Business mileage
- Charitable donations
- Christmas party and staff event
- Entertainment
- Equipment
- Eye tests and glasses
- Home office
- Mobile telephone
- Pensions
- Professional subscriptions
- Salaries
- Stationery, postage, books and journals
- Training and tuition
- Travel and subsistence
- Work clothing

Introduction

As a company owner or sole trader, you may incur a variety of business expenses whilst undertaking your business. You need to know what expenses you are entitled to claim to benefit from tax relief, whilst fully complying with the tax legislation. The notes below reflect the guidelines set and commentaries issued by HM Revenue & Customs (HMRC).

You get 'relief' for allowable expenses because these expenses reduce the amount of profit which is liable for corporation or income tax.

Limited Companies

The inclusion of allowable expenses in your accounts will reduce your corporation tax payment by 19% of the expense amount. For example, £100 of expenses would result in a corporation tax bill which is £19 lower.

Sole traders

The allowable expenses will reduce the amount of profit you are charged income tax on.

Expenses are tax deductible provided they are 'wholly and exclusively' for business purposes. You cannot reclaim expenses which have a 'duality of purpose', i.e. expenses which have joint personal and business use.

To support the validity of any expense claim you should retain all original receipts for items that you submit for tax relief. Please be aware that HMRC can request a copy of your records for 6 years from the end of the last company financial year they relate to. Therefore, we would advise to keep records for 6 years as a minimum. There are options to upload copies of receipts onto your FreeAgent or Xero portal.

If you are unsure about any of these rules please contact your accountant for further advice.



Claiming expenses

Your expenses can be paid in two different ways. Either directly from the business bank account or as a 'reimbursed expense' for when it is paid for out of your own pocket.

For expenses reimbursed to you by your business, you are able to refund yourself at any time from the business account. However, you must keep the receipts to justify the expenses. Allowable expenses are only claimable when they are 'wholly and exclusively' incurred in the performance of work for the business.

Sometimes expenses can be seen as dual purpose which means they have a personal usage element as well as business. It is unlikely that you will be able to obtain tax relief on these expenses. But if the dual purpose is only incidental due to business necessity, the claim may still be valid, such as protective work clothing or a company uniform which could also be used personally.

Accommodation

Hotel Accommodation

If you are required to stay away from home overnight to conduct your trade, you can claim for the cost of the accommodation. This will generally relate to the costs of a hotel or bed and breakfast accommodation, and it is important the cost incurred is associated directly with business activities.

As the business owner the level of expenditure is at your discretion, however it is advisable to ensure the costs are of a reasonable amount, dependent on geographical location.

Rented Accommodation

If you are required to stay away from home overnight to conduct your trade and the accommodation is rented, the cost (inclusive of gas, electricity and council tax) may be tax deductible provided you maintain and continue payment for a permanent residence elsewhere.

A copy of the rental agreement, in the business name, and copy receipts for the rental payments should be kept to support the claim, along with proof of financial responsibilities at the main residence (mortgage statement, council tax bill etc.). It is important you reside in the rented accommodation alone. If other family members are present the accommodation is not claimable.

Accountancy fees

You can claim tax relief for the full cost of any accountancy fees, excluding any fees specifically relating to personal affairs.

Bank charges

You can claim tax relief for the full cost of bank charges on your business account.

Business insurance

Business insurances such as professional indemnity insurance can be claimed.

Business mileage

Business mileage can be claimed at the following rates where you use your personal vehicle for business travel:

Vehicle	Rate per mile (up to 10,000 miles per tax year)	Rate per mile (on each mile over 10,000 miles)
Cars and vans	45p	25p
Motorbikes	24p	24p
Bicycles	20p	20p

Please note that the mileage allowance is set by HMRC and is intended to cover the costs of fuel, wear, tear, vehicle tax and insurance costs.

A copy of the Vehicle Registration Document (V5) should be retained as evidence of your ownership of the vehicle. A record should also be kept including the date of journey, start and finish points for the journey along with the number of miles travelled. This can be done via your accountancy software.

No petrol receipts are necessary to support the claim, unless registered for standard rate VAT.

Where a vehicle is hired wholly, exclusively and necessarily for business use, the rental and fuel costs of the vehicle are tax deductible. The 45p mileage charge is not claimable in this instance.

We do not typically recommend purchasing a car through the limited company except for in a few exceptional circumstances, typically where the car is low emissions. Please discuss this with your accountant in advance if this is something you are considering.

Charitable donations

You can claim tax relief on your charitable donations to UK registered charities.

Christmas party and staff events

As a business owner, you are entitled to provide an annual event for yourself, any staff you employ, and your partner, as a tax-free benefit providing the expense does not exceed £150 per head (inc VAT).

Entertainment

The cost of entertaining clients or any third party is not deemed an allowable business expense by HMRC, and so cannot be offset against profits to reduce the tax liability.

If you are required to attend such an event for business purposes, your portion of the bill may be claimed under evening meals provided they are not excessive. The receipt amount should be split to determine the appropriate business cost.

Note that where the entertaining is a valid business expense it is still worth including in the accounts even though there will be no reduction for corporation tax. This is because if the entertaining were to be paid for out of pocket, you will need to pay income tax on the dividends/salary you extract from the company first.

Equipment

Computer Equipment

Computer hardware (such as PC, tablet or printer) and software purchased by the company for business purposes are tax deductible, **provided it is solely for business use**.

Note, if you have joined the flat rate VAT scheme you can also claim back the VAT element of any capital expenditure items when purchased in a single transaction of £2,000 or more.

Tools and Equipment

The cost of any upkeep, repairs or replacement of tools and equipment are tax deductible provided the tools are solely for business use and required to aid you in completing your task.

Office Equipment

You may also claim reasonable relief towards the cost of equipping/furnishing an office with items such as a desk or bookcase, **assuming personal use is incidental**.

Eye tests and glasses

You can claim for an eye test providing you regularly use a computer monitor or other screen in your line of work.

Generally speaking, glasses or contact lenses cannot be claimed as an allowable business expense as they have duality of purpose (i.e. it is more than likely that they will also be used outside of your working environment).

However, if a prescription is required for glasses that are solely to be used for business purposes (e.g. specifically for monitor or screen work) and evidence can be provided that they are not used elsewhere, then the purchase of glasses can be justified as an allowable business expense.

Home office

Use of home allowance

If you regularly work from home, from April 2020, HMRC accept a £6 per week allowance can be claimed without the need to justify the amount or provide receipted evidence.

Additional bill costs

Alternatively, if you regularly work from home, HMRC accept a portion of the household bills can be claimed for tax relief, provided you have a separate area/office used. You would be required to provide evidence to support your claim. These costs must be clearly identifiable as surplus to the usual running costs of the home, so mortgage costs and council tax cannot be included.

The portion of the bill allowable for tax relief depends on the duration of hours worked from home, how many rooms are in the house and the bill itself.

Note that this method comes with complications in areas such as capital gains tax and insurance, so we would typically advise using the £6 allowance. For further information, please contact your accountant.

Mobile telephone

Limited companies

If the phone is registered in your company name and is used only for business, then the full amount can be claimed. In this instance the cost of the phone can also be claimed.

Sole traders

You are able to claim a percentage of the phone costs. This would involve working out what percentage of use is related to business and what is personal. You must be able to demonstrate your workings to HMRC to be eligible for the tax relief.

Pensions

You can make payments into a pension scheme directly via your business up to £40,000 per tax year free of tax.

This will be treated as a business expense and will allow you to get tax relief.

If you already have a pension scheme set up, we would advise you to contact your current pension provider to confirm they are able to support pensions paid in this way.

Professional subscriptions

You can claim tax relief on fees or subscriptions you pay to approved professional organisations - but only if you must have membership or it relates to your job.

You cannot claim tax back on fees or subscriptions for:

- Life membership subscriptions
- Fees or subscriptions you have not paid for yourself

Salaries (for Limited Companies)

Depending on your Income – we could run a Director's monthly salary for you at the secondary threshold.

Running a salary at this rate will not attract any PAYE tax or employer and employee National Insurance. This would be classed as a business expense which will effectively give you 19% Corporation Tax relief.

We could also run a salary for a spouse/other family if they perform work for the company. For more

Stationery, postage, books and journals

Stationery, printing costs, postage, books and journals purchased for business purposes are tax deductible provided they are solely for business use.

Training and tuition

Where you are required to undertake training or tuition that is directly linked to your business activities, the costs are tax deductible.

The activity should be designed to impart, instil, improve or reinforce any knowledge or skills which will improve the service you provide when performing your duties. Typical courses are predominately health & safety, renewals and those allowing you on site (usually within the construction industry).

Courses such as MBAs or degrees would not typically be allowable as they offer new skills and knowledge rather than building on existing skills.

As evidence you should provide; the name of the training provider, description of course and dates along with your current job description.

In addition to the cost of the course, any expenditure incurred such as travel, meals and accommodation required to complete the course are tax deductible. All original receipts should be retained to support your claim.

Travel and subsistence

The full amount spent on travel for business purposes to a temporary workplace via public transport are tax deductible, along with costs incurred for parking, tolls or congestion charges. This does not include parking fines.

Reasonable meal costs are tax deductible if incurred solely for business and provided they are not excessive. Generally, this will be lunch or dinner, however breakfast may also be claimed for any extended duration of hours worked.

General supermarket shopping and the bulk buying of items to prepare your lunches are not considered allowable expenses. It is only prepared items purchased outside of your household and consumed that same day. The claim should be for the exact amount spent, no round-sums.

Work clothing

The provision of protective clothing is tax deductible when it is required to be worn as a matter of physical necessity because of the nature and/or location of the job.

This typically includes overalls, protective boots, gloves and goggles. The costs incurred for the upkeep or repair of the specialist clothing is also tax deductible.

Clothing such as shirts, skirts and suits that can be used for dual purpose, HMRC do not consider as allowable for tax relief, nor the upkeep such as dry-cleaning costs.

...Congratulations!

You've reached the end! We hope you found this guide useful. Remember, your accountant is always available to answer expense questions.

You can call us on **01625 544 679** or email team@agencyaccountant.co.uk

