

## **Finance Tips: Business Expenses**



For people with small businesses, the rules governing business expenses are complicated. You should always consult an accountant about anything you are not sure about.

The following is a summary of the main points you need to be aware of.

### **What are allowable expenses?**

You can deduct from your turnover any expenses incurred totally through your business, such as:

- Office rental
- Office cleaning
- Postage
- Business insurance

In addition, you can claim expenses against expenditure that is 'dual purpose' -i.e. both personal and business. If you work from home, for example, you can claim for the proportion of your phone bill that relates to your business.

You can also claim for the use of your home for business purposes, with the proviso that the claim is reasonable. The advice from some accountants is that you calculate the proportion of your home used for business purposes and then claim back that proportion of your general household expenses (e.g. gas and electricity); others advise claiming just £4 per week.

Be careful about claiming that a part of your home is solely for business use, rather than for 'mixed use'. You may find that you become subject to business rates, or that when you sell your home you have to pay capital gains tax on a proportion of the sum you have gained.

### **Capital allowances**

Any buildings or equipment that you buy for your business do not count as expenses. Instead, you must claim a proportion of them as 'capital costs' against your taxable profits. You can claim capital allowances for what your business spends on certain assets that it owns and uses in the business, provided certain conditions are met. You cannot claim capital allowances for the cost of things that your business buys and sells as part of its trade. Instead, you will need to include these items in business expenses when you work out your trading profits.

Check out HMRC's guide on claiming capital allowances - [www.hmrc.gov.uk/capital-allowances/basics.htm](http://www.hmrc.gov.uk/capital-allowances/basics.htm). If in doubt, speak to an accountant or call HMRC.



## **Benefits in kind**

There are a wide range of benefits in kind received by employees, most of which are taxable, though there are some statutory exemptions.

Most directors of companies are liable to pay Income Tax on the value of the benefit in kind and expense payments provided. Their employers (or in certain cases other third parties who provide benefits in kind) are liable to pay Class 1 or Class 1A National Insurance contributions (NIC).

Employees who earn at a rate of less than £8,500 a year are only liable to pay tax on certain benefits in kind.

More information can be found here - [www.hmrc.gov.uk/statistics/tax-benefits.htm](http://www.hmrc.gov.uk/statistics/tax-benefits.htm)

## **Travel expenses**

You can claim expenses for any travel relating to your business, except for travel from home to a permanent workplace. A workplace is regarded by HMRC as 'permanent' if you can expect to work there for 'all or almost all of the likely duration of the employment'.

If you use your own car for business purposes, each tax year you can claim up to 45p per mile up to a maximum of 10,000 miles and 25p per mile after that. The rate for bicycles is 20p per mile and for motorcycles 24p per mile. You can also claim for parking costs and congestion charging.

## **Overnight allowances**

You do not normally pay tax on the cost of staying away from home, but your expenses (for accommodation, food and drinks) must be reasonable. There is also an allowance for 'incidental overnight expenses' for stays within the UK and a higher rate if abroad.

## **Reclaiming VAT**

If you are registered for VAT, you can reclaim VAT on purchases you have made solely for business purposes.

The need to keep records - it is vital that you keep all your expense-related receipts and bills and maintain accurate records so that you can back up all your claims for expenses.

## **Further information**

You will find more detailed information in HMRC's 'Expenses and Benefits' Tax Guide [www.hmrc.gov.uk/incometax/relief-self-emp.htm](http://www.hmrc.gov.uk/incometax/relief-self-emp.htm)