



# PA Bookkeeping working with local businesses.

## Expenses Guide for Small businesses – What you need to know



### Time to end your expenses headache

If you are a small-business owner or sole trader, figuring out what you can claim as a business expense can be a major headache. But as you know, it's worth taking the time to make sense of it all so that you don't end up paying more tax than you need to, so we've come up with some handy pointers to help make life and business much easier for you.

This guide focuses on the main questions we are asked on a regular basis, but of course each business is different, so if there's anything you might apply to you, that we haven't included, feel free to give us a call on 07488 246505.

First off, there's one basic rule to bear in mind when you're working out your expenses: for something to become a tax-deductible expense the goods or service purchased must be wholly and exclusively for the purpose of carrying out your business activity.

This seems simple enough, but as well all know, in practice it's not always that easy.

So let's break it down a bit more and see how that applies to different aspects of your business.

# Business Basics

## Premises

Whether you have premises that are wholly used for business purposes or you work from home, you can claim for the cost of running your business.

The main difference is that with commercial premises you can claim for 100% of the rent, property insurance, utility bills, security, business rates and other related costs, but if you're working from home you can only claim a proportion of the total, and some bills, such as water is excluded.

## Materials and Equipment

You can claim for any goods that have been purchased in order to sell them through your business, or any raw materials that you have used to produce goods to sell.

You can also claim tax relief on fixed assets, like equipment and office furnishing, if they are necessary for your business.



# Business Basics

## Admin

There are lots of things you can claim for the day to day running of your business, including stationery, postage costs and computer consumables.

Other allowable expenses include business related subscriptions and membership fees, although it's best to check which professional bodies are acceptable under HMRC's rules.

## Financial

Bank charges, loan interest and leasing costs are all allowable as business expenses along with bookkeeping fees.

If you are a sole trader, you can claim for bookkeeping fees if they relate to your sole trader accounts and any time your accountant spends working on your Self Assessment tax return.

If you are the director of a limited company, you can claim for accountancy fees if they relate to your business, but not for any time your accountant spends working on your Self Assessment tax return.

## Advertising and Marketing

Advertising, whether online or in print, is tax deductible, as are marketing expenses.



# Getting from A to B

## Vehicles

This one causes a lot of confusion, so if you find it tricky, you're not alone!

Generally speaking, there are two ways of calculating allowable vehicle expenses: either you can claim for the mileage attributable to business journeys (travelling between client appointments or to a temporary workplace, but not from home to a permanent workplace), or you can claim for what are known as the 'actual cost methods', such as vehicle insurance, servicing and repairs, fuel and licence fees.

If you are using the 'actual cost method' there would need to be a personal usage adjustment for any vehicles that have a dual business and personal use.

## Travel

As with vehicle expenses, travel costs only class as an allowable expense if they apply to a business journey, which excludes travelling between your home and your permanent workplace.

However, for applicable journeys (see 'Vehicles' above), you can claim for plane, train and bus tickets, taxi fares, car hire, parking fees, tolls and congestion charges.

You can't claim for parking fines and it's best to avoid using taxis too frequently, particularly for very short journeys.



# Getting from A to B

## Accommodation and Food

It's fine to claim for accommodation expenses if you have to stay away from home to work at a temporary location or attend a client meeting, as long as the purpose of your journey is solely for business and the costs are not excessive.

This includes hotel rooms and meals for overnight trips, and it can include food and drink in other situations, although we recommend you seek advice before claiming for that because it can get complicated.

You can't claim for food and drink if you're a sole trader or the sole director of a company with no other employees, and you are working from home or at your regular place of business. A company can claim for tea, coffee, and free canteen meals if it provides them for all its employees.



# People

## Staffing

Companies can claim for staffing costs, including salaries, pensions, benefits, bonuses, and employer's National Insurance contributions. A company that provides annual health check-ups for its staff or medical insurance for employees working overseas can also claim tax relief on those costs.

Sole traders cannot claim for pension payments, but they can claim personal tax relief on payments made to a pension scheme. A sole trader is also unable to claim for medical costs or insurance, although vision tests are considered an allowance expense in some cases.

## Workwear

There's a common misconception that you can claim for clothing if you only wear it to work, but in reality the only acceptable reasons for claiming tax relief on workwear are: if your work requires protective clothing, such as a high-vis jacket, a safety helmet or overalls; if you wear a uniform; or if you are a performer and your clothing is a costume ( although this would definitely be something you should check with your bookkeeper)

Otherwise, you can't claim for clothing costs, even if you wear a particularly fancy suit!



# People

## Training and Development

When it comes to training, there is a difference between the kind of training courses that are allowable expenses for businesses and for the self-employed.

A business can claim tax relief for any employee training course as long as the training is clearly relevant to the company's current activities and the company does go on to provide that service to customers in the future (if it doesn't already). For example, if a plumbing firm wanted to expand into electrical work, it could claim for any training its employees undertook for it to be able to offer this new service.

A self-employed person can claim for any training that maintains their current skills and existing qualifications, but not for a course that teaches them a new skill. For example, a beautician may claim for a course on nail care as they are already qualified to provide that service, but they cannot claim for a course on massage if they have no previous training in that area.

## Entertainment and Parties

You can claim tax relief for entertaining employees, although in some cases this could be classed as a taxable benefit for your staff, so it's best to check that any event meets the criteria first.

Entertaining clients or anyone other than your employees are generally not an allowable expense, so neither you nor your company can claim tax relief for that in the majority of cases.



# Final Tips

## Dual-Purpose Use

Sometimes, there may be equipment or premises that serve a dual purpose – in other words, for business and personal use. Particularly if you work from home. While there are certain circumstances in which this might be unavoidable, it can get complicated if you don't know how to calculate the proportion of business vs personal usage, so it's often simpler to keep things separate where possible.

This could mean getting a second mobile to use for business calls, a laptop that you only use for work, a separate broadband line or a room in your house that functions solely as an office.

If any of this applies to you, we recommend asking an accountant/bookkeeper to help you work out your expenses and avoid any potential issues with your taxes.

## Keep a Record

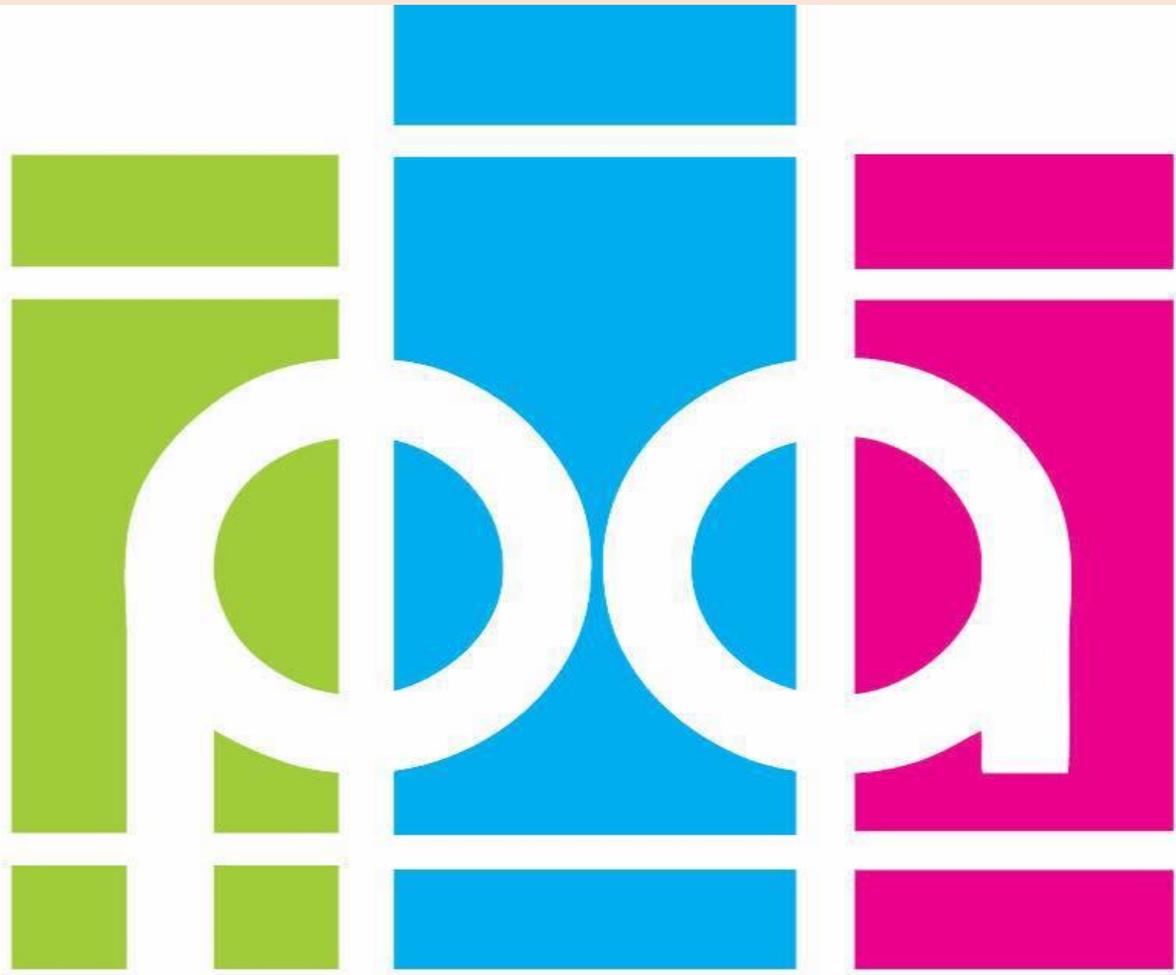
The most important thing you can do is to keep an updated record of all the financial ins and outs associated with your business.

It's far easier to keep track of your expenses as you go along than to try and remember everything at the end of the tax year, so get into the habit of keeping and organising your receipts in a file, and maybe use the services of a bookkeeper on a monthly/quarterly basis to keep track of everything for you.

## If in Doubt, Contact Us

If all this still sounds like a total minefield, we're more than happy to help take the stress out of it, by giving you advice that suits your individual business needs.

No question is too small, we know how challenging it is to run your own business, which is why we are here to help however we can.



# Book Keeping

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