

This guide is meant to be informative, but it is not definitive. HMRC do not have a definitive list of allowable/disallowable

expenses as what may be considered allowable for one industry could be disallowed for another e.g. if you are a self-employed taxi driver then claiming for the cost of a new washing machine would not be allowable, but if you ran a laundry service then this may be an allowable cost.

The way in which you claim expenses will (in part) be determined by your business structure i.e. sole trader, partnership or limited company- a different set of rules apply to limited companies whereby any item you make personal use of may have to be reported as a company benefit and may be considered as a "Benefit in Kind" (different rules apply here again).

The way in which you claim expenses will also be determined by whether you use accruals accounting, the cash basis and whether or not you use simplified expenses. Allowable expenses are deducted from your turnover to establish your taxable profit. Disallowable expenses are added back to your taxable profit. We're going to look at the most common sides of both.

I've not included purchasing things such as cars and vans or property as the rules are a little more complex. Also if I gave all of this away, I'd be out of a job!

## Disallowable Expenses for Tax purposes (sole traders)

- **Entertaining clients-** although it may get you more business, this is not an allowable expense for tax purposes
- **Entertaining suppliers-** again, disallowed.
- **Certain gifts-** those costing more than £50 each, gifts of alcohol, tobacco or cash, this can include Christmas Hampers. This applies to staff as well as customers and suppliers.
- **Training courses-** courses that **do not** relate to your current business are not allowable i.e. if you're a painter you couldn't claim training for a forklift license as an allowable expense. You also can't claim for a course that allows you to expand into other areas of business even if the new business is related to your current business e.g. painting and plastering could be considered "decorating"- you couldn't claim the cost of training as a painter if you are a plasterer and vice versa.
- **Your own wages-** sole traders do not take a wage or salary from the business as they **are** the business- they take drawings which are taxable as profit.
- **Legal costs of buying property/machinery-** (these can be claimed as capital allowances if you use traditional accounting)
- **Fines for breaking the law**
- **Loans, overdrafts, finance arrangements-** you can't claim for the repayment portion of any of these as an expense as they won't be considered as income, but you can claim for the interest part of the payment.
- **Bad debts-** if you're not using traditional accounting you can't claim a bad debt (debts must meet certain criteria to be considered bad) as an expense. You can't include provisions for bad debts either.
- **Donations to charity-** donations to **national charities** are disallowed for tax purposes (unless paid through GAYE-Give as You Earn)
- **Donations to Political parties**
- **Golf/Country Club/ Gym membership fees-** this applies even if your profession requires you to be fit i.e. personal trainer, or even if this membership allows you to meet new clients.

## Allowable Expenses for Tax purposes (sole traders)

You can only claim as an allowable expense, the amount of an expense that is used for business purposes:

- **Mobile Phone Costs**- e.g. your phone bill is £240 for the year- you use it for 60% personal use and 40% business use- the allowable amount would be £96.00
- **Gas and Electricity**- if working from home you need a reasonable way of calculating how much of your household gas/electricity bill is a business cost i.e. dividing the bill by the total number of rooms in your house (excluding kitchen and bathroom) and multiplying by the number of rooms you use for business.
- **The cost of required uniforms**- these must be job specific i.e. painter's overalls and PPE. You can't claim for the likes of a new plain white shirt etc.
- **Certain gifts**- anything that is not alcohol, tobacco or cash, costs less than £50 per gift and has the company name and logo clearly displayed e.g. diaries, stationary.
- **Office Equipment**- anything you use in your business i.e. laptops/ computers, stationary, other machinery.
- **Travel expenses (including car and van)**- vehicle insurance, repairs and servicing, fuel, parking, hire charges, vehicle license fees, breakdown cover, train/bus/taxi fares, hotel rooms, food on overnight business trips (subsistence). You can't claim for travel from home to work or for any fines. Again, all of these must be a business expense and you will have to apportion costs if you use your car for both business and personal use. (There are different rules for claiming the **cost of purchasing a car**). You may also be able to use **simplified expenses** rather than calculating the cost of everything.
- **Training courses**- these must relate to your current business (i.e. if taking a CPD/refresher course is a requirement of your profession)
- **Staff expenses**- salaries/wages, bonuses, pension contributions, employer's NICs, agency fees, subcontractors, benefits provided
  - **Entertaining staff**- you can claim no more than £150 per person per annum as an allowable expense.
- **Goods for resale/restock**- including raw materials and production costs to bring the product into a saleable condition.
- **PII and PLI premiums**
- **Hiring of solicitors, surveyors, architects and accounts for business reasons.**
- **Bank/Credit/Financial charges**- interest on bank/business loans, overdraft/credit card charges, hire purchase interest, leasing payments. You can only claim up to £500 in interest and bank charges if using cash basis accounting.
- **Bad debts**- only if you're using traditional accounting and not cash basis accounting.
- **Advertising**- bulk mail, leaflets and business cards (stationary), free samples (further rules may apply), website running costs i.e. hosting and SEO marketing etc.
- **Subscriptions**- professional subscriptions i.e. AAT membership, Gas Safe registration and other trade/professional body memberships that directly relate to your business.
- **Donations to charity**- donations to **local charities**. These are called sponsorship payments and are deemed a legitimate form of advertising so long as the charity publicly supports your business/ allows you to use their logo/ allows a link between their website and yours etc.

## Methods of Accounting

How you claim expenses will depend on whether you use traditional accounting or the cash basis. If you're using cash basis accounting then you can also claim simplified expenses for things like mileage, working from home and living at your business premises rather than calculation the business proportion of everything you use. You can't claim simplified expenses if you're using traditional accounting.

If you're claiming expenses based on apportionment then you need to find a reasonable and justifiable way of calculating the business proportion of a cost and you must keep a record of the methodology you've used and the calculations you've made.

There are different rules when you purchase business vehicles, equipment and machinery. Most of these are covered by Capital allowances. There are another set of rules when you've owned an item personally before introducing it into the business and a different set of rules again for claiming for expenses relating to furnished holiday lets.

In short, keep a record of everything you buy and everything you sell. If you're claiming for something as an expense then make sure you keep a receipt- if you've not got the receipt then don't claim- it's not worth it if HMRC decide to ask you for your records. The list above isn't definitive, I've put it together with the aim to help small business owners who may be just starting out and need a little advice.

If you need any further information then please don't hesitate to ask.

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Best of luck in your business endeavours.

Kind Regards,

Gareth Evans

(On behalf of Evans & Co)