

# What Expenses Can I Claim?

## Help-sheet

There has been much debate over the years as to what constitutes an allowable expense. Many of the present rules have been developed by the courts. Some of them are not logical, but they are the rules. This help-sheet deals with the position of sole traders and partnerships – the rules for limited companies are similar, the main difference being the treatment of proprietor's drawings and motor expenses.

In order to claim an expense for tax purposes, it must have been incurred 'wholly and exclusively' for the purposes of your business. Under the Self-Assessment rules, you also need to keep some form of record. The basic headings under which expenses are likely to fall and the points to note are as follows:-

Expenses that you should record	Points to note
Goods including consumables, purchased for resale or for use on a job	Goods bought for the business but used privately must be either kept separate at the point of purchase or sold by your business to you at normal selling price.
Wages paid to people who work in your business	Money you draw yourself should be recorded separately from wages paid to others. You can pay your spouse if he or she works for you, but this must be at a realistic rate for the work actually carried out and it must be paid and recorded. A PAYE scheme may be required.
Motoring and travel expenses	<p>The cost of getting from home to your normal place of work is regarded as private mileage rather than business. If you record all motoring expenses and then let us know what proportion of your total mileage is for private purposes, we shall split it at the year end.</p> <p>The cost of buying the car (less what you get when you sell it) is allowed over the number of years that you own it. Again, this is reduced by any private use.</p> <p>Alternatively you can claim 40p per mile for the first 10,000 business miles, then 25p per mile thereafter – this is usually the best option for limited companies, but speak to us about the options.</p>
Tools and equipment	Replacement of small loose tools is allowed in full. The allowance for larger items will be spread over a number of years.
Telephone	You can claim for business calls on home or mobile phones, but you need some record of these in order to split the total bill.
Hire of equipment	Record 'hire' and 'hire purchase' (HP) separately. The allowance for HP payments is slightly complicated - let us have the agreement when you let us have your books and we shall do the calculations.
Postage, stationery and advertising	These vary between businesses, but even if a fairly small amount, it is worth keeping track of.
Rent, rates and other establishment costs	If you have separate business premises, these will be allowed in full. If you work from home, a proportion may be claimed, depending on how much use you make of your home. In this situation it is usually easier to claim a fixed weekly sum, say £5 per week, which we would simply include in your annual accounts.

Expenses that you should record	Points to note
Work clothing	<p>Strictly speaking, clothing must be 'protective' in order to qualify. However, many trades result in a high level of wear and tear on ordinary clothing and where this applies, some allowance is generally given for clothes such as jeans and shoes.</p> <p>However, if you pay £150 for a pair of trainers and wear them to work when they start to get a bit tatty, do not expect to get away with charging them to the business!</p> <p>Unless you work in a harsh environment, you will not be able to claim for clothes. In a landmark case a female barrister claimed for her court clothing, which she only wore to work because it was too drab to wear elsewhere. She took the case right to the House of Lords but lost. The Law Lords said that she needed her clothes for 'warmth and decency' so the fact that she only wore them to work was irrelevant!</p>
Insurance	<p>Public liability, motor insurance and insuring your business assets are all allowable. However, personal insurances such as accident and life assurance are not. If you take out a private pension you should let us have the certificate - this will not appear in your accounts, but will be claimed separately on your tax return.</p>
Books and journals	<p>If your business requires you to keep up to date, this usually means taking a trade journal or buying books. These are allowable, but a daily newspaper is almost certainly not.</p>
Legal and professional fees	<p>Some legal fees are not allowable, mainly in connection with property. Record them all and we shall advise at the year end.</p>
Business entertaining	<p>This is not allowable for tax. However, if you do entertain a lot for business you should still record it to know what your business overheads are. It would then appear in your accounts, but would be adjusted for when calculating your taxable profits.</p>
Loan interest	<p>Some bank loans show the interest separately from the repayments. Most do not, in which case you should let us have the loan agreement or the details from it so that we can calculate the interest element.</p>

As a general rule, if you incur an expense which is wholly or partly as a result of your business or self-employed work, keep a record of it. Depending on the size of your business, this may be no more than the invoice for the expense (although you do not necessarily need an invoice to claim the expense). If it cannot be claimed, we can leave it out of your accounts. It is a lot easier to do it this way round, rather than be in the position of having no record of expenses that could have been claimed. Also beware that the Inland Revenue can now charge penalties of up to £3,000 for failing to keep record of income and expenses.

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