

Working in Practice

Business Expenses

An expense is allowable for tax deduction if it is incurred “Wholly and Exclusively” for the purposes of the trade or profession of the business. The test of “necessarily” needs to be judged for each type of expenditure as HMRC may not agree that the expenditure is necessary.

The following are examples of expenditure that will normally be allowable for both VAT deduction (if VAT registered) and Inland Revenue tax deduction.

All Limited Companies, partnerships and sole traders can claim the following:

- Direct and indirect materials consumed in the manufacture and sale of goods and services
- Direct payments to sub-contractors
- Hire and lease of manufacturing equipment, including vans, trucks and certain cars
- Establishment costs of premises
 - Maintenance, rent and rates, heating, lighting etc
 - Security systems,
 - Premises Insurances
 - Telephones
- Employee Costs
 - Wages and salaries of workers, staff and out workers
 - National Insurance and pension contributions
 - Training courses
 - Loss of Office compensation, redundancy
 - Welfare and child care services including staff entertainment and Christmas parties up to certain limits
- Office and Administration Cost
 - Business Insurances for employer and public liability
 - Bad debts written off and associated expenses of debt collection
 - Interest on Hire Purchase Mortgages and other loans used for business purposes
 - Printing Postage and Stationery
 - Accountancy, legal fees (other than for purchase of Capital Assets) and other agency fees incurred for business purposes
- Advertising and Marketing
 - General Advertising and direct mail campaigns
 - Exhibitions and trade fairs and costs related to getting them established
- Business gifts (not food or alcohol) with advertising slogans etc up to a value of £50 to any one person in a year
- Donations to charities, recreational or educational establishments

The Self-Employed who sometimes work from home can also claim additional expenses in addition to the ones above.

The test for claiming these types of expenses is

“Would the expenses have occurred if the person was not acting for their business?”

Care must be taken not to overload the expense beyond what could be considered as reasonable

Allowable

- Use of Home Expenses
- Travelling to and from sites to carry out the work
- Hotel and subsistence costs related to the work
- Protective Clothing
- Replacement of tools and equipment
- Training and related costs of books and specialist magazines
- Subscription to professional organisations
- Accountancy and certain legal fees
- Interest on personal and business loans taken out for increasing working capital and purchase of assets etc

Non Allowable

- Personal use of business assets such as cars equipment etc
- Costs relating to use of business assets e.g. petrol for cars
- Personal Drawings, wages and personal expenses
- Class 2 and class 4 National Insurance
- Travelling to and from home to a workplace if the workplace is always in the same location and is considered as the place of work and not the home
- Business entertainment and lunches etc
- Health and private medical insurance
- Certain legal fees and costs for the defence in breaking the law. I.e. Motor fines etc.
- Excessive hotel and accommodation expenses
- Cost of clothing that could be worn and be considered as normal non-work clothes.