

HANCOCK
— AND —
HASTINGS
ACCOUNTANTS

Expenses Guide for Sole
Traders

HANCOCKANDHASTINGS.CO.UK

INFO@HANCOCKANDHASTINGS.CO.UK
01582 758844 OR 07545876329

4 CARLISLE CLOSE
DUNSTABLE
BEDFORDSHIRE
LU6 3PH



TYPICAL BUSINESS EXPENSES

The tax legislation enables certain expenses to be claimed as a deduction against business income, thereby reducing the income tax. To be a business expense it must be incurred wholly and exclusively for the purpose of the business.

If a bill covers business and personal use, you must use a reliable method to work out what proportion was for business use before claiming allowable expenses (although you can claim a flat rate).

Here are some of the most common types of expenses you may encounter which are generally allowable, when you follow the rules:

Office equipment and tools

You can claim expenses for business equipment such as laptops, PCs, printers, and computer software that your business has used for less than two years.

You can't claim tax back on small tools.

Stationery and communications

As well as the usual paper, envelopes and pens, you can also claim back tax on postage and printing, including the costs of printer ink and cartridges that you use as part of your business.

With more businesses now trading online, this allowance also applies to electronic communications – so you can claim tax back on your business phone, mobile and internet bills.

Phone and internet

If you use your phone, mobile and internet for personal and business use, you'll need to demonstrate a realistic way of dividing the costs and can only claim tax back on the part for business use.

If you can't show this, you can't claim any tax back.

Professional and financial services

If you get advice from an accountant, lawyer or other professional as part of your business, you can claim tax back on their fees.

You can also claim allowable expenses for hiring surveyors and architects for your business, just not for personal home improvements.

If you have a business bank account, you can claim tax relief on bank, overdraft and credit card charges or interest on business loans.

You can also claim tax back on hire purchase, lease, or other financial payments for equipment you use in your business.

Pension contributions

Contributions to your pension are not a business expense, so they don't affect your self-employed profits. However, you are eligible for tax relief on any contributions you make, which your pension provider will automatically claim.

Staff and employee costs

You can claim tax relief on employee and staff salaries, bonuses, pensions, benefits, staff and employee costs, agency fees, subcontractors, and employer's National Insurance contributions.

Car and vehicle costs

If you use a vehicle as part of your business, you can claim tax relief for expenses such as petrol, insurance, and repairs.

Mileage allowance

As a self-employed person, you can add up all your motor expenses for the year and work out the separate business element of the total cost.

However, keeping track and working this out takes time and effort.

Instead, you can claim mileage allowance, a simplified expense that lets you calculate the costs for running your vehicle.

Other vehicle-related areas you can claim expenses on include:

- Parking
- Breakdown cover
- Hire charges.

Again, tax relief only applies to these if they are business rather than private expenses.

You can't claim tax back on parking or other fines incurred while driving. There's no tax relief for breaking the law.

Clothing

Generally, you can't claim for clothing if it's something you'd wear as part of an everyday wardrobe. So, even if you've bought a suit for work, you can't claim for its cost.

But, if you must buy a uniform that identifies what you do or needs special protective clothing to do your job, you can claim for that.

You can't claim for non-uniform items such as shoes and socks.

If you're an entertainer, and the clothes you're buying are a costume for a stage, TV or film performance, then you can claim tax relief on those.

Clowns, magicians, acrobats and Elvis impersonators – we bet HMRC enjoys reading your clothing claims!

Laundry

If you wear a uniform or special protective clothing, you can claim expenses if you wash, repair, or replace it.

Food

You can only claim money back on food and drink if it's a business expense, meaning it must be outside your usual working routine, such as a business trip.

Stock and materials

You can claim tax back on:

- Items that you resell, e.g. stock
- Raw materials that you use to make goods for sale
- Direct costs from producing goods.

Marketing and advertising

You can claim tax back on the costs of advertising and marketing your business, including costs for hosting and maintaining your company website.

But beware, you may think that treating a customer or supplier to lunch is 'marketing', but HMRC considers it as 'entertaining', which you can't claim tax back for.

Subscriptions

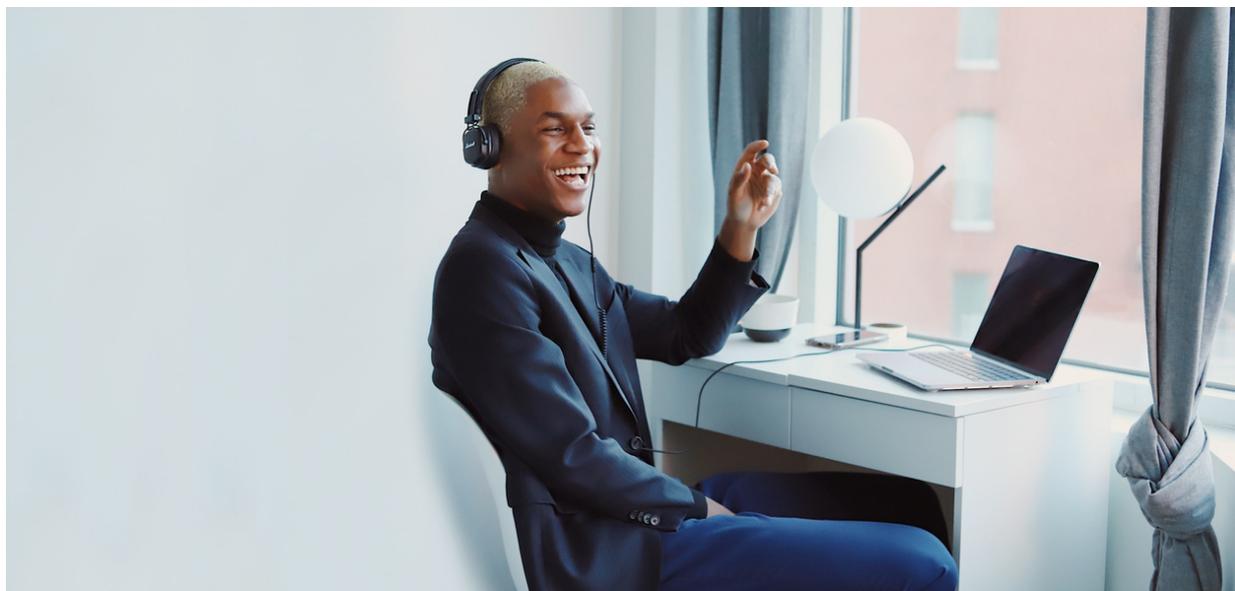
If you're a member of a professional trade body or organisation as part of your business, you can claim tax relief on your membership fees. Subscriptions to trade or professional journals are also allowable expenses, so claim for those too.

Travel costs

There's a host of allowable expenses you can claim for if you must travel for business, including train, bus, taxi, airfares, and accommodation costs.

But these only apply if the primary reason for your journey or stay was for business.

If you take a trip that combines business and pleasure, you can only claim tax relief on costs that you can show are separate from the private part of your journey. If you can't split up the costs, you can't claim tax relief on any part.



What expenses can I claim when working from home?

As a sole trader, you may run your businesses from home.

In this case, you can only claim tax back on the proportion of those expenses that relate to the space you use for your business, including heating, electricity, council tax and mortgage interest.

You'll need to find a realistic way of dividing the costs.

You may divide your bills according to the number of rooms you use for your business or the time you spend working from home.



FINAL THOUGHTS

You should track your business expenses throughout the year and keep organised records. You must keep records for five years after 31 January of the relevant tax year.

Ideally, you'd use accounting software, which saves time and is more accurate than using spreadsheets. It should let you import expenses and receipts—if you have paper receipts, you can often snap and capture them digitally.

Understanding allowable expenses can make all the difference to your cash flow. If you know what you can and can't claim back, it makes things much easier come tax return time.

Give yourself plenty of time to get your head around your allowable expenses and ensure you don't have to pay more tax than is required.

HANCOCKANDHASTINGS.CO.UK

INFO@HANCOCKANDHASTINGS.CO.UK
01582 758844 OR 07545876329

4 CARLISLE CLOSE
DUNSTABLE
BEDFORDSHIRE
LU6 3PH