

Business Expenses

1.1	Frequently Asked Questions.....	2
1.1	Do I need a separate business bank account?	2
1.2	I've put both business and private expenses through my business bank account?	2
1.3	I have paid for some expenses privately. Can I still put these through the accounts?	2
1.4	Some of my costs are part business, part Private. What should I do?	3
1.5	For which costs can I claim?	3
2.1	Allowable Business Expenses - General.....	4
3.1	Expense guidelines	5
1.6	Bank Charges	5
1.7	Car Purchase.....	5
1.8	Car Hire.....	5
1.9	Company Formation Costs	6
1.10	Company Credit Cards.....	6
1.11	Travel and Subsistence Expenses	6
1.12	Entertaining.....	7
1.13	Telephones and Internet	8
	Home Telephones	8
	Mobile Telephones	8
	Internet	8
1.14	Pension Contributions	8
1.15	Professional Subscriptions.....	8
1.16	General Office Purchases	9
1.17	Training.....	9
1.18	Reference Books and Journals.....	9
1.19	Eyesight Tests	9
1.20	Use of Home as an Office	9
1.21	Equipment Purchases	9
1.22	Relocation Expenses.....	10
1.23	Salaries/Staff wages and Employer's National Insurance Contributions	10
1.24	Tools and Clothing	10
4.1	Expense Items that cannot be claimed	11

1.1 Frequently Asked Questions

1.1 Do I need a separate business bank account?

Some small businesses don't like to open a separate bank account because of the charges, but if you don't have a dedicated bank account for your business, there is much more risk of confusion and your bookkeeping will take longer because there will be more transactions to account for – many of which will be irrelevant to your business.

Banks often give you a good deal when you start up, change banks or keep a minimum balance in the account. Even if there is a cost, this has to be set against the fact it will make your bookkeeping much easier, quicker and cheaper.

If HM Revenue & Customs investigates your business, you will be giving them access to your personal as well as your business income when they look at the bank statements if you mix everything up in a private account. It also means that whoever is preparing your accounts and tax returns will see details of your personal/private spending, of course.

If you operate as a limited company then you must keep a separate business bank account for the company, because it is a separate legal entity.

1.2 I've put both business and private expenses through my business bank account?

Don't mix private and business expenditure. Your bookkeeping will be quicker and easier if you only put business transactions through your business account.

You will need to take money out for yourself – drawings for a sole trader or partnership; normally salary, dividends and expenses for a limited company – but once a month should be enough.

Paying private costs out of the business can create serious tax problems for a limited company, but even for a sole trader/partnership, you'll only have to pay your bookkeeper or accountant to work their way through your private transactions. And – you may not want them to see how much you spend or what you buy.

Don't be tempted to pay for non-business things out of the business just because that is where the money is and it is convenient.

1.3 I have paid for some expenses privately. Can I still put these through the accounts?

If you pay business expenses personally you are, of course, entitled to reclaim them back from the business. Try to avoid this as much as possible by using a debit card on your business account or using a petty cash tin so all payments are made directly.

Where it is unavoidable – and this will particularly apply to limited companies claiming mileage in lieu of motor expenses – take the same approach as if you were claiming expenses from an employer.

Detail the claim on a sheet of paper; don't forget to attach supporting receipts (and the mileage log if relevant); and file it in the purchase invoice file in the month in which it is paid.

Finally, try to do it at least once every month so you don't forget any costs or lose receipts and so miss out on claiming a legitimate expense against tax.

1.4 Some of my costs are part business, part Private. What should I do?

This often causes confusion, but you can simply look at it as your private expenditure and make an expense claim for the business part in the way described above. If you run your own business as a limited company this may be the best way, because paying private costs from the company can cause tax problems.

You will need to have a sensible method of assessing how much the "business part" is. A common example is the cost of running your business from home. You will need to calculate how much your house costs in total and then make a reasonable estimate of the proportion of property used for the business and apply that proportion to the total costs.

It is important to realise that this is just a method of finding out what the business cost is, and if necessary being able to explain why it is 10 per cent or 20 per cent of the total rather than, say 5 per cent.

1.5 For which costs can I claim?

To be allowable, costs must be incurred for the "sole purpose of the business". You cannot claim for personal expenses (eg suits or general clothing). Obviously, you can claim for the cost of the goods you have acquired to make your sales. For example, taxi drivers, minicab drivers, etc and those in the road haulage industry should enter fuel costs in this box rather than elsewhere unless they are claiming mileage rate; hairdressers should enter shampoo and hair product costs here.

At the end of the year you will need to make an adjustment for the stock you have left. So the value for cost of sales will be: the value of opening stock brought forward from last year, plus purchases made during the year; less value of closing stock at the end of the year.

Other direct costs might include: discounts; commissions; carriage; and research costs. For permanent, temporary and casual employees you should include: salaries/wages; bonuses; pension contributions; benefits; employer's NICs (National Insurance contributions); canteen expenses; any recruitment agency fees; any subcontract labour costs.

Allowable premises costs include rent; business rates; water rates; light; heat, power; property insurance; security; use of home as office; as well as repairs and renewals and general maintenance of premises and maintenance of machinery.

You can also claim for general admin expenses, such as telephone; broadband; postage/courier; stationery; printing costs; professional journals and subscriptions; insurance (eg public liability, etc). Travel and subsistence costs are also allowable, including vehicle insurance; servicing; repairs; vehicle licence; fuel (or mileage claimed at approved rates); rail/air tickets; taxi fares; hotel accommodation; subsistence/similar costs.

Advertising, marketing and promotional costs can be classed as expenses, as can fees you pay to an accountant, solicitor, surveyor, architect, stock taker, etc. You can also claim back interest and alternative finance payments on bank and other loans (including overdrafts) and alternative finance arrangements, as well as bank/credit card charges and interest charges on hire purchase agreements.

2.1 Allowable Business Expenses - General

In all cases an expense is allowable only if:

- it is not excluded by regulations and
- it was reasonably incurred and
- it was wholly and exclusively
 - incurred for the purpose of the business or
 - spent for the purpose of the business and
- it was
 - relevant to the assessment period or
 - spent in the assessment period
- The decision maker should consider each item of expense separately.

Expenses which the decision maker should allow if the conditions above are met are all day-to-day expenses of a business including:

- accountancy charges
- advertising
- cleaning of business premises
- difference between opening and closing stock (on accounts)
- discounts allowed to customers
- employees' wages before any deductions are made, including any wages payable to the domestic partner
- employer's contributions to employees' pension scheme
- employer's (secondary) Class 1 SS contributions
- heating and lighting)
- hire or rental costs (but not any capital or purchase elements)
- interest payable under a credit sale, a consumer credit agreement or a hire purchase agreement (but not the capital element of payments)
- legal fees associated with the business
- payment in kind for work done for the business - the monetary value is allowable
- rent and rates
- stationery
- stock purchases
- sundries, sometimes called miscellaneous items, which are small in relation to total allowable expenses provided that the decision maker is satisfied that no non-allowable expenses, for example for business entertainment, are included
- telephone, telex, fax etc
- transport excluding any home-to-work costs - see also if a vehicle is used partly for private purposes

There are some areas which are very complex and you should check with us before assuming it is allowable. For example in the areas below have a look at the rules HMRC sets

3.1 Expense guidelines

It is essential to obtain and retain receipts for all expenses incurred in order to be able to justify the expense if questioned by HMRC.

1.6 Bank Charges

Bank charges paid by the Company are allowable.

1.7 Car Purchase

You may be considering the purchase of a new car and are wondering whether this should be done privately or through the Company.

In general it is true to say that the most cost effective way is for you to purchase the car privately. You can then charge the Company the tax free mileage allowance (45p per business mile up to 10,000 miles (2011/12) and 25p thereafter). However if you wish to purchase the car through the Company you should be aware that if a director and 100% shareholder effectively you are financing the cost of the car yourself.

In addition, as a director a car made available to you for private use by your employer will attract a Car Benefit in kind charge. If the Company pays for any private fuel (even for just one mile of private mileage) you will also incur a Car Fuel Benefit in kind charge.

The Car Benefit charge is based on the percentage of the car's original list price and the carbon dioxide (CO2 emissions). The percentage for the majority of calculations is between 10% and 35%. The Car Fuel Benefit is again, calculated on the relevant percentage of CO2 emissions on a flat rate figure, currently £18,800 for 2011/12.

If a Car Benefit (and Car Fuel Benefit) charge arises it will be necessary to prepare and submit a form P11D to HM Revenue & Customs by 6 July each year. The Company is required to provide details of the vehicle and calculate the relevant benefit in kind charges. The benefits would then be shown on your Self Assessment Tax Return.

In addition to the tax due on the benefit charge(s) Class 1A National Insurance Contributions (NIC) is due. This liability to NIC arises on the Company (not the director).

Class 1A NIC is currently charged at 12.8%, rising to 13.8% with effect from 6 April 2011.

As you will appreciate the liabilities to tax and NIC on you the director and company can be significant and you should be sure of the full implications of purchasing a vehicle through your company. Please contact us if you intend to do so.

Different rules apply to "pool cars".

1.8 Car Hire

Reasonable car rental costs are allowable where a hire car is used for business journeys only. Where the hire period is extended the cost of hire for periods when the vehicle is no longer used on business should not be claimed. A comprehensive mileage log should be kept to demonstrate that the vehicle has been used for business journeys only.

1.9 Company Formation Costs

Costs of forming the Limited Company are allowable.

1.10 Company Credit Cards

Credit cards in the Company's name can be provided to authorised users for business use only. If used inadvertently to make a purchase for a personal item reimbursement must be made in full before the settlement date.

1.11 Travel and Subsistence Expenses

Determining whether travel and subsistence expenses are allowable is a complex area but generally you can claim expenses incurred for all legitimate business journeys including travel to a temporary workplace.

This means you can claim the costs of travel from your home to your client site so long as this site remains a temporary workplace. This is a considerable difference from employees in a permanent job, as travel to their place of work would be regarded by HMRC as 'ordinary commuting' and therefore not an allowable expense.

Temporary Workplace

A temporary workplace is defined as a workplace where you go to perform a task of limited duration or for a temporary purpose.

A temporary work place ceases to be a 'temporary' workplace if you attend it for a period of continuous work that lasts, or is likely to last, more than 24 months. This means as soon as you know that you will be at a workplace for more than 24 months then travel and subsistence cannot be claimed.

Examples of Travel and Subsistence Expenses

- Air, Train, bus, ferry and taxi fares
- Parking, congestion charges and tolls
- Subsistence expenses e.g. lunch at temporary workplace
- Hotel and meals, if you need to stay away from home
- £5 per night personal incidental expenses (PIEs) for overnight stays in the UK
- £10 per night personal incidental expenses (PIEs) for overnight stays overseas
- Mileage using your own vehicle (see below)

The above examples should be allowable expenses provided they are for business journeys or for travel to a temporary workplace. Please Note: PIEs do not require receipts.

Business Mileage

Latest rates <http://www.hmrc.gov.uk/rates/travel.htm>

If you use your own vehicle for business travel you can claim the rates set out in the table below. Please Note: Total business mileage relates to each individual tax year and includes mileage claimed in previous employments in that tax year.

Vehicle	Rate Per Mile (On first 10,000 miles in tax year)	Rate Per Mile over 10,000 miles
Cars and Vans	45p	25p
Motorbikes	24p	24p
Cycle	20p	20p

Subsistence expenses when you and/or staff are required to travel away from your normal place of employment whilst on business are allowable. The general rule is if travel costs (see below) qualify as business travel any associated subsistence costs are also allowable. Meals and refreshments when you/staff are working away from home must be reasonable. The cost of a sandwich etc purchased on the way to a temporary workplace can be claimed but not for food prepared at home.

Accommodation costs when you/staff are required to stay away from home whilst on business are also allowable. Accommodation includes hotel, guest house, Bed & Breakfast or staying with friends and in certain cases furnished accommodation. This includes rented apartments/flats/houses or flat-share where this is a cheaper and more convenient alternative to hotel accommodation. Where the cost for rented accommodation is claimed we would need to see a copy of the Tenancy Agreement. Costs of accommodation should be appropriate to the business need, reasonable and not excessive. The cost of breakfast and an evening meal is also allowable.

Receipts must be obtained and only actual amounts expended should be reimbursed.

In addition, where you/staff stay away from your normal place of employment and you may incur additional "overnight incidental expenses." Such expenses will be incurred when staying in a hotel/guesthouse and includes telephone calls home, laundry, newspaper, mini bar etc. Amounts of up to £5 per night for stays in the UK and up to £10 for each night, any part of which is spent outside the UK, are allowable and can be paid without receipts.

1.12 Entertaining

Entertaining expenses are always disallowed in the company's accounts as a deduction for Corporation Tax. The areas most likely to raise an inquiry by HMRC into the company's accounts are the Director's travel and entertaining expenses as these have the most potential for abuse.

Expenses related to bona fide business entertaining may be claimed if the entertainment meets all of the following criteria:

- Customers or potential customers are present, and
- No member of the employee or office holder's family is present, and,
- Where the purpose of the event is not predominantly social, (e.g. reciprocal entertaining).
- The cost of entertaining staff or colleagues in the same organisation is not considered bona fide business entertaining e.g. your Company Secretary.

A full explanation of entertainment expenses should be documented and substantiated by original receipts.

Business entertaining does not include entertaining employees of the same organisation, personal friends, or business acquaintances where there is no business obligation to entertain them. Business entertaining costs are not an allowable expense for the Company. Reimbursements of expenses incurred by you in genuine business entertaining of customers/clients can be claimed but any such costs will be disregarded when calculating the Company taxable profits.

Details of the names of attendees, the organisation which they represent, the purpose of the entertainment and the venue at which the entertaining took place should be kept, together with full supporting receipts.

Staff entertainment is the provision of entertainment (including hospitality of any kind) for employees where its provision for them is not incidental to its provision for others. Examples include the cost of meals where only employees are present, hotel accommodation, theatre outings and attending restaurants, hotels, sporting events etc where no customers or business contacts attend. The provision or reimbursement of staff entertaining is an allowable expense for the Company but you will have a tax and potentially a NIC liability.

A liability to tax and NIC will not arise on the provision of an annual party, usually at Christmas/summer time. Additional events may also be held. Subject to the total costs not exceeding (currently) £150 per head you will not be taxed upon it providing the total cost does not exceed the exemption. If cost is just 1p over then the whole cost will be subject to tax and NIC. The event must be open to all staff, although in reality that will just be you! You may invite a partner, but if partners are invited, all staff must be entitled to invite a partner and partners will count for the £150 per head exemption.

1.13 Telephones and Internet

Home Telephones

You can claim the cost of the business calls only. You cannot claim the cost of rental as this will be treated as a benefit in kind on which you will pay tax. If you wish to claim rental then install a second line but make sure the account is in the company name and is paid for by the company.

Mobile Telephones

If the account is in the company name and company pays the bill then there is no taxable benefit for a mobile phone. If the account is personal then you can claim the cost of business calls only.

Internet

If the account is in the company name and any private use is not significant then there is no taxable benefit for internet usage. If the account is personal then you may only claim a proportion of the bill based on your business usage.

1.14 Pension Contributions

Contributions to a Company Pension Scheme can be tax and NIC efficient as any contribution to a pension scheme is outside the scope of NIC. We recommend that specific advice should be sought regarding pension contributions.

1.15 Professional Subscriptions

Claims for subscriptions to professional bodies relevant to your employment are permitted. This is restricted to certain professional bodies approved by HMRC and included on their published List 3.

<http://www.hmrc.gov.uk/list3/>

Subscriptions where the activities of that professional body are not directly relevant to the employment are specifically disallowed.

1.16 General Office Purchases

The actual cost of office stationery, postage and computer consumables used wholly, exclusively and necessarily in the performance of your duties. Please retain receipts.

1.17 Training

Work-related training costs paid by the Company are allowable provided that the purpose of the training is to upgrade or enhance current skills. HMRC require 'work-related training to "impact, instill, improve or reinforce any knowledge, skills or personal qualities which are likely to prove useful when an employee performs their duties of employment, or will better qualify the employee to perform those duties or participate in any charitable or voluntary activities arising through the employment."

Costs include learning materials, examination, registration fees and associated travel and subsistence costs. Details of the expenditure, together with the time spent in the course of travelling each respective day must be provided.

1.18 Reference Books and Journals

Publications, trade journals and magazines subscribed for by the Company for the director/employee to carry out their duties of employment are allowable. The purchase must be made from the Company's bank account and any subscription must be in the Company's name.

1.19 Eyesight Tests

The cost of an eyesight test, if it is necessary for the initial or continued use of visual display equipment in your duties, will be allowed. However, you are unable to claim for glasses as they offer a dual purpose and are not exclusively related to business use, unless they are prescribed during your time at work for visual display ONLY.

1.20 Use of Home as an Office

You must actually work from home on revenue generating activities.

The office you use must be a business office and not just a bedroom or a kitchen table. It must be available to be inspected by HMRC who may ask to hold a meeting in the office. The cost should represent the cost of you providing an office at home i.e. a proportion of heating, lighting etc plus a proportion of council tax and other direct property costs.

We have a separate guide on how to calculate this cost.

1.21 Equipment Purchases

The cost of equipment purchased to carry out the duties of your employment. This would include computers, printers, software, other peripherals plus the costs of equipping an office e.g. desks, chairs, filing and bookcases.

When making these purchases you can pay personally but must obtain an invoice in the company name.

Computer equipment, includes laptops, desk top computers, scanner machines, BlackBerrys etc. Such equipment can be provided by the Company for business use only at your home. Any private use should be incidental and "not significant."

If the Company operates the **VAT Flat Rate Scheme**, VAT can only be reclaimed if total costs in excess of £2,000.

Whilst the Company can provide computer equipment to a director, and subject to the above conditions no benefit in kind should arise. However, if the director purchases the computer equipment and claims reimbursement for this from the company the reimbursements is not an allowable cost.

1.22 Relocation Expenses

Eligible relocation expenses are allowable. A qualifying relocation includes, on commencement of new employment, where there is a change in the employment duties or a change where their duties are normally carried out. The expenses must be incurred before the last day of the tax year following that in which the relocation has occurred.

Qualifying expenses include, expenses of disposal acquisition (legal, estate agent and surveyor fees), expenses of transporting belongings, travel and subsistence, duplicate expenses (new for old items) and bridging loan expenses. A maximum of £8,000 of 'qualifying expenses' can be paid free of tax and NIC. All expense must be supported by receipts.

1.23 Salaries/Staff wages and Employer's National Insurance Contributions

Salaries paid to you and staff (where you are a fee earner) are allowable. Employer's National Insurance Contributions paid by the Company are also allowable

1.24 Tools and Clothing

This section refers to mainly to individuals filing a tax return. As a company you only need to know that uniforms and protective clothing are an allowable deduction.

As an employee or director, you may be able to get tax relief if you - and not your employer - spend money on any tools or specialist clothing you need to be able to do your job. You can go back several years to get the relief - the time you've got depends on whether you've previously sent in a Self Assessment tax return.

As a general rule an employee can't get tax relief for the cost of clothing they wear to work - but there are some exceptions. For example, if you work in a sector like the building trade or the metal working industry you'll have to wear protective clothing like:

- overalls
- gloves
- boots
- helmets

If you must pay for the cost of repairing, cleaning or replacing this type of specialist clothing yourself and your employer doesn't reimburse you, then you are entitled to tax relief. However, you cannot claim for the initial cost of buying this clothing.

You are also entitled to tax relief if you have to buy - out of your own money - the tools you need to be able to do your work. For example, if you're a hairdresser your employer might require you to provide your own scissors. The tax relief also applies to the cost of maintaining and replacing the tools.

What about uniforms

You can get tax relief on the cost of repairing, cleaning or replacing a uniform if:

- it's a recognisable uniform that shows you've got a certain sort of job - like a nurse or police uniform
- your employer requires you to wear it while you're working
- you've got to pay for it yourself

Flat Rate Expenses

If you have to spend money on tools or specialist clothing for your job you may be entitled to either:

- tax relief for the actual amounts you spend
- a 'flat rate deduction'

Flat rate deductions are amounts that HM Revenue & Customs (HMRC) has agreed nationally - or sometimes locally if conditions are very different - with trade unions or other bodies. The deductions cover what's typically spent each year by employees in different trades. For example, someone working in the clothing industry can get a deduction of £60 each year. A cabinet maker can get a deduction for £140 while the deduction for a stone mason is £120. You don't have to be a member of a trade union to get the deduction. You'll also benefit from less paperwork - you won't have to keep a record of all the individual amounts you spend. Follow the link [HERE](#) to see a table of agreed flat rate expense deductions.

Flat rate expense deductions

If your industry is not listed on the table, you can still claim a standard amount of £60 for the laundry costs of uniforms or protective clothing.

4.1 Expense Items that cannot be claimed

Expense items that cannot be claimed include the following:

- Office Clothing such as business suits (except safety clothing)
- Car service and repairs
- Training Courses not related to your employment - e.g. plumber claiming skiing instruction
- Private club subscriptions - e.g. Golf Club membership
- Items mainly for personal use - e.g. televisions, cameras, Hi Fi, Sat Nav

Please remember business expenses should only relate directly to your business. **Personal expenses that do not wholly relate to the business of your company should not be claimed.**