

Allowable Expenses

We are often asked: “What expenses can I claim now that I am self employed?”.

The rather glib answer is “anything that relates to your business”. Whilst this is generally true, there are some expenses which, although genuine business expenses, are specifically excluded from tax relief, such as:

- Business entertaining including the VAT; however input VAT on business entertaining of overseas customers is recoverable
- Charitable subscriptions and donations unless it is your company making the payments. For sole traders and partners, the payments potentially get relief under Gift Aid rather than as a deduction from business profits
- Political donations
- Costs and Fines for breaking the law
- Loan Capital Repayments
- Drawings, including payments for tax and National Insurance contributions
- Depreciation; capital expenditure is subject to the capital allowance regime

Expenditure on plant and machinery for most small businesses is likely to be covered by the annual investment allowance but there are certain items, such as cars, where the tax allowance is spread over a number of years.

Accounts are normally produced on an ‘accruals’ basis. Income is recorded when a sale is made rather than when the cash is received. Expenses are charged against income based on when the legal obligation to pay arises (typically the invoice date) rather than when the expense is paid for.

There is an option to adopt a cash basis for calculating taxable income for small unincorporated businesses. One of the measures allows any unincorporated business to choose to use flat rate expenses for the following items of business expenditure:

- Fixed allowances for business mileage
- Expenses relating to business use of the home
- Adjustment for private use of business premises

This information is not exhaustive. Please contact us if you have any queries about the allowability of specific expenses and whether you want to consider the cash basis for preparing accounts.

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