

## **SELF EMPLOYMENT: ALLOWABLE BUSINESS EXPENSES**

### **Basic rules**

The profits of a business are calculated according to generally accepted accounting principles, whereby costs are deducted on an accruals basis so that expenses are included for the period in which the date of the invoice falls rather than when they are paid.

There are two types of expenditure, capital and revenue. Capital expenditure generally covers the purchase of or improvement to assets, whilst revenue expenditure normally covers those costs used to generate the turnover or sales of the business.

The accounting profit needs to be adjusted for tax purposes to ensure costs being claimed have been incurred wholly and exclusively for the purposes of the trade. It is also necessary to remove any accounting adjustments, such as depreciation.

### **Examples**

HM Revenue & Customs provide the following examples of some of the allowable and non-allowable items of revenue expenditure that can be claimed against turnover or sales.

<b>Category</b>	<b>Allowable expenses</b>	<b>Non-allowable expenses</b>
Accountancy, legal and other professional fees	<ul style="list-style-type: none"> <li>Accountants, solicitors, surveyors, architects and other professional fees.</li> <li>Professional indemnity insurance premiums.</li> </ul>	<ul style="list-style-type: none"> <li>Legal costs of buying property and equipment.</li> <li>Costs of settling tax disputes and fines for breaking the law.</li> </ul>
Advertising and business entertainment costs	<ul style="list-style-type: none"> <li>Advertising in newspapers, directories and so on.</li> <li>Mailshots, free samples and website costs.</li> </ul>	<ul style="list-style-type: none"> <li>Entertaining clients, suppliers and customers.</li> <li>Hospitality at events.</li> </ul>
Bank, credit card and other financial charges	<ul style="list-style-type: none"> <li>Bank, overdraft and credit card charges.</li> <li>Hire purchase interest and leasing payments.</li> <li>Alternative finance payments.</li> </ul>	<ul style="list-style-type: none"> <li>Repayment of the loan, overdraft or finance arrangement.</li> </ul>
Car, van and travel expenses	<ul style="list-style-type: none"> <li>Motoring costs such as car and van insurance, repairs, servicing, fuel, hire charges, vehicle licence fees and AA/RAC membership.</li> <li>Train, bus, air and taxi fares, hotel room costs and meals on overnight business trips.</li> </ul>	<ul style="list-style-type: none"> <li>Non-business (private use proportion) of motoring costs.</li> <li>Fines.</li> <li>The cost of buying vehicles.</li> <li>Travel costs between home and business.</li> <li>Other meals.</li> </ul>
Construction industry – payments to subcontractors	<ul style="list-style-type: none"> <li>Construction industry subcontractor's payments (before taking off any tax).</li> </ul>	<ul style="list-style-type: none"> <li>Payments for non-business work.</li> </ul>
Cost of goods that you are going to sell or use in providing a service	<ul style="list-style-type: none"> <li>Cost of goods bought for resale, cost of raw materials.</li> <li>Direct cost of producing goods.</li> </ul>	<ul style="list-style-type: none"> <li>Cost of goods or materials bought for private use.</li> </ul>

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### **Examples (continued)**

<b>Category</b>	<b>Allowable expenses</b>	<b>Non-allowable expenses</b>
Depreciation and the loss or profit on the sale of assets	<ul style="list-style-type: none"> <li>This is covered by capital allowances and balancing charges.</li> </ul>	<ul style="list-style-type: none"> <li>Depreciation of equipment, cars and so on.</li> <li>Losses on sales of assets (minus any profits on sales).</li> </ul>
Insurance policy	<ul style="list-style-type: none"> <li>Costs of any business specific policy.</li> </ul>	<ul style="list-style-type: none"> <li>Tax enquiry insurance.</li> </ul>
Interest on bank and other business loans	<ul style="list-style-type: none"> <li>Interest on bank and other business loans.</li> <li>Alternative finance payments.</li> </ul>	<ul style="list-style-type: none"> <li>Repayment of the loans or overdrafts, or finance arrangements.</li> </ul>
Irrecoverable debts written off	<ul style="list-style-type: none"> <li>Amounts included in turnover but unpaid and written off (due to being unrecoverable).</li> </ul>	<ul style="list-style-type: none"> <li>Debts not included in turnover.</li> <li>Debts relating to fixed assets.</li> <li>General bad debts.</li> </ul>
Other business expenses	<ul style="list-style-type: none"> <li>Trade or professional journals and subscriptions.</li> <li>Other sundry business running expenses not included elsewhere.</li> </ul>	<ul style="list-style-type: none"> <li>Payments to clubs, charities, political parties and so on.</li> <li>Non-business part of any expenses.</li> <li>Cost of ordinary clothing.</li> </ul>
Phone, fax, stationery and other office costs	<ul style="list-style-type: none"> <li>Phone, mobile, internet, email and fax running costs.</li> <li>Postage, stationery, printing and small office equipment costs.</li> <li>Software.</li> </ul>	<ul style="list-style-type: none"> <li>Non-business (private use proportion) of expenses.</li> <li>New phone, fax, computer hardware or other equipment costs.</li> </ul>
Rent, rates, power and insurance costs	<ul style="list-style-type: none"> <li>Rent for business premises, business and water rates, light, heat, power, property insurance, security.</li> <li>If you use your home for business, the business proportion or flat rate amount.</li> </ul>	<ul style="list-style-type: none"> <li>Costs of any private part of the business premises or flat rate amount, if you live on the business premises.</li> <li>Costs of buying the premises.</li> </ul>
Repairs and renewals for property and equipment	<ul style="list-style-type: none"> <li>Repairs and maintenance of business premises and equipment.</li> <li>Renewals of small tools.</li> </ul>	<ul style="list-style-type: none"> <li>Repairs of non-business parts of premises or equipment.</li> <li>Costs of buying, improving or altering premises.</li> <li>Cost of equipment and initial cost of small tools.</li> </ul>
Wages, salaries and other staff costs	<ul style="list-style-type: none"> <li>Salaries, wages, bonuses, pensions, benefits for staff or employees.</li> <li>Agency fees, employers' National Insurance contributions and so on.</li> </ul>	<ul style="list-style-type: none"> <li>Own wages and drawings, pension payments or National Insurance contributions if included in expenses.</li> <li>Payments for non-business work.</li> </ul>

The above examples are provided for the traditional basis of accounting. HM Revenue & Customs do allow small sole trade and partnership businesses to use simplified expenses. Simplified expenses use flat rates for some of the above items instead of actual business expenses.

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