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Allowable Business Costs

1. Introduction

There are two general rules which determine whether a cost incurred by your business is allowable – this means can be set against the sales, thus reducing the tax payable by the business. These are:

- a) The cost must be “**wholly and exclusively**” incurred for business purposes.

If it is not possible to argue that a specific and identifiable part of the whole is incurred wholly and exclusively for business, then mixed business and private use is not allowable at all. An example of this is generally costs incurred on personal health, such as physiotherapy. In this instance, there may be both a business and private motive – business in that the back strain perhaps happened at work and that you cannot work unless the back is put right. However, there is also a private motive, simply to get better. As it is not possible to identify a specific part of the whole cost that is incurred wholly for business, none of the cost would normally be allowable.

An example where it is possible to identify a specific part of the whole which relates to business, despite there being both business and private use, is the cost of cars for sole traders or partners (the rules within companies are different). If you keep records confirming your business and total miles driven in a year, you can multiply the total running costs of your car by the business percentage use. See section 2 d) below for more on car costs.

- b) “Revenue” costs must be distinguished from “Capital” costs. Only revenue costs are allowable deductions against profits. An example of this distinction is that the purchase of a new computer is a capital cost (it ends up on the balance sheet as a fixed asset) whilst the cost of computer repair costs are revenue – they are put through the profit and loss account and reduce the overall profit for the year.

2. Specific Costs

Some specific costs are as follows:

- a) **Business travel**

This is allowed where the cost is from your home where home is deemed to be your main place of work to client’s premises or on other business related trips. If you go to the same place for more than 24 months this is a problem – from the point you know or expect a contract to last more than 24 months at the same site, you cannot claim travel costs to that site. There can also be problems if you have other regular places of work which effectively turn them from a “temporary” workplace (travel to a temporary workplace is allowable) to a “permanent” workplace (travel to a permanent workplace is not allowed). Costs should be supported wherever possible by invoices/receipts. If exceptionally, you cannot get a receipt, it may be possible to estimate the actual cost or claim £5 a day where you are away at clients



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on business for more than 5 hours that day or claim £10 if away from your place of work for 10 hours that day. If you wish to use the flat rates, your business will need a system for checking that subsistence costs are actually being incurred – otherwise HMRC may well seek to tax the costs as additional salary.

b) Subsistence

Reasonable costs for your own food are allowable, provided the travel to that place is also allowable. Subsistence covers the cost of food and drink for yourself.

c) Entertaining

If you also pay for someone else's food and/or drink (whether in conjunction with paying for your own food or drink at the same time, or not), the whole cost is treated as entertaining. This should be separately analysed on your spreadsheets as entertaining costs are not allowable. If VAT registered, VAT is not recoverable on entertaining costs unless you are entertaining overseas customers whilst carrying on business meetings (i.e. not simply taking overseas customers to a sports event). Please try to record the name of the client and the person being entertained.

d) Car Costs or Mileage

(i) Sole Traders and Partners

There is a choice of claiming either:

- A flat rate of 45 pence per business mile for the first 10,000 miles and 25 pence per mile thereafter. However, you cannot use the pence per mile option if capital allowances have been claimed. Thus this option applies to a start up business or to a replacement car in an existing business. The 10,000 business mile limit applies to all cars in the business. If you use this flat rate allowance, you must continue to use it while that car remains in the business;

OR

- All the actual running costs (petrol/diesel, repairs and servicing, insurance, MOT, AA or RAC costs etc multiplied by the business percentage use (you will need to keep records to record business miles and total miles to arrive at a percentage)

PLUS

the capital costs of buying the car **X** a percentage given by the CO₂ emissions **X** the business percentage use. If CO₂ emissions are 95 gm/km or less, the first percentage is 100%, if the CO₂ emissions are 130 gm/km or less, the percentage is 18% and if greater than 130 gm/km, the percentage is just 8%).

Generally, you need to pick the option which gives you the highest deduction but you cannot switch method from one year to the next.

(ii) Limited Companies

Generally, putting all car running costs and the actual cost of buying a car through a company results in personal and company tax on a deemed benefit. See our Factsheet on Car Benefits which goes into more detail.

A simple alternative is for you to claim 45 pence per business mile driven for the first 10,000 business miles and 25 pence per mile thereafter.

e) Telephones and Broadband Costs

(i) Sole Traders and Partners

We can put through in the accounts 100% of the costs but for tax purposes, we have to add back the private percentage use of the home phone, mobile phone and broadband costs.

You thus need to keep adequate records to support the business versus private split.

(ii) Limited Companies

In order to get a deduction for the cost of these items against income, it is necessary for the mobile phone and broadband contracts to be in the company name, not your personal name. If the contract is in your personal name and we try to claim for the costs against profits, you end up worse off because the costs are treated as a benefit in kind, subject to both personal tax and company tax. If, on the other hand, the contract for these two items are in the company's name, you should get a 100% deduction for the cost, provided we can argue that any private use is merely incidental to business use.

Once the contact(s) are in the company name, it is best to get the company to make the payments to the supplier directly, rather than pay personally and claim the money back later from your company.

In the case of home phones, where you have only one home line coming into the house, you should not claim any of the rental charge and only call charges which you can show to be 100% for business. If exceptionally you have more than one home line and the second is a dedicated business line, you may be able to claim for both 100% rental and call charges.

f) Use of Home

(i) Sole Traders and Partners

There is a choice of claiming either:

- A flat rate amount, **calculated on a monthly basis**, according to the number of hours spent wholly and exclusively on work done by you or an employee in your home

No of Hours Worked Per Month	No of Hours Worked Per Week	No of Hours Worked Per Year	Amount that can be Claimed Per Month
25 – 50	5.7 – 11.6	300 - 600	£10 (£120 pa)
51 – 100	11.7 – 23	601 – 1,200	£18 (£216 pa)
101 or more	23.1 or more	1,201 or more	£26 (£312 pa)

- A claim based on actual household costs X proportion of the house used for business (based on number of rooms or square footage) X the amount of time you spend working wholly for business in the home.

The costs to take into accounts are:

- a. Mortgage interest or rent
- b. Buildings and contents insurance
- c. Council Tax
- d. Water rates

- e. Gas and Electricity
- f. Cleaning costs
- g. Possibly repairs to the room (though these may be claimable in full)

(ii) Limited Companies

To avoid any benefit in kind issues from HMRC arguing that the amount being paid for the use of home represents a benefit, instead we put in place a formal Licence Agreement between the company and the owners/renters of the home. This is calculated as for the second option for Sole Traders and Partners set out above.

g) Staff Parties

An annual event or possibly two annual events are allowable up to £150 per head in total, including the VAT. The event(s) must be open to all employees/directors/officers.

Thus, if you have two events in a year and one costs £100 per head and the other £65, you would only be allowed the £100 per head. The other items would be a benefit subject to personal and company tax if you put it through the profit & loss account, or alternatively would be treated as a private payment to yourself (in which case it would need to be covered by a dividend in the year to you to clear the item).

The VAT is also recoverable (assuming you are not on the Flat Rate Scheme for VAT) on this “staff welfare” item, but only in respect of actual employees/directors attending, not in respect of spouses/partners/contacts/customers. The VAT inclusive cost in respect of non-employees attending should be posted to “Entertainment” not “Staff Welfare”.

h) Eye Test and Glasses

(i) Sole Traders and Partners

We consider a partial claim could be made for both the cost of an eye test and for the new glasses, especially where the glasses must be used for business. The claim should be for the percentage of time you use the glasses on average for business compared for private purposes.

(ii) Limited Companies

On the basis that employers are required to provide regular eye tests for employees who use VDU equipment, the cost of eye tests paid for by the employer should be wholly deductible by the company and not taxable on the individual as a benefit. On the basis that new lenses or glasses are needed to enable VDU users to read from computer screens without damaging their eyes, a proportion of the cost of glasses and the lenses may be claimable by the company and not taxable on the individual. The claimable portion would be a reasonable element for the part of the glasses that deals specifically with VDUs. If the glasses are solely for VDU use then 100% of the cost could be claimed. But where say varifocal glasses are prescribed for both VDU use and say driving etc, you will need to apportion the amount claimed.

i) Other Medical Type Costs

Gym Membership

Although you can claim for gym membership via your company, a benefit in kind (BIK) charge will arise against the employee and Class 1A NICs will be payable by the company on the total cost of the membership. Understandably, there is certainly a personal benefit

from having gym membership, and you'd find it hard to claim that this was a purely 100% business expense.

Health Insurance

As with many other expenses, it would be hard to prove that health insurance was required purely for business purposes, so although the company can pay for this type of cover, the employee will attract a BIK charge for the privilege, as well as employers' NIC on the total value of the benefit.

You may decide to take out a permanent health insurance (PHI) policy through your company rather than personally to provide you with an income should you be unable to work. This is an allowable business expense, although you may be personally liable to pay income tax and NICs on any funds received via your income protection policy should you need to make a claim.

Private Health Checks

Directors and employees can claim for the cost of one private health assessment or health screening each year without attracting a BIK charge.

Overseas Medical Costs

These costs can be claimed legitimately if charged directly to the company and arranged in advance, and if the employee was abroad on business when treatment was needed.

Other Medical Treatment

If you require medical treatment due to injuries or diseases sustained or contracted as a result of your work, these costs are also tax-deductible.

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