

What Business Expenses Can You Claim for Your Small Business?



No matter whether I am dealing with someone who is self-employed or running their own limited company this is the question I get asked all the time. Small businesses do not need the extra burden of paying tax unnecessarily and so armed with this extra information you may save yourself some tax and still not be financially out of pocket.

Here is a list of items that you are able to claim for against your income, which reduces your profit and thus reduces the amount of tax you need to pay.

Please note that this list is not exhaustive and may not cover every item. If you are unsure as to whether you can claim an expense, please check first.

Accountancy

The fee that you pay to your accountant in order for them to prepare your accounts and tax return is tax deductible. When selecting an accountant to deal with your affairs, always ensure that they are qualified and registered with an accountancy body and ensure they have a practising certificate. If you do not use a qualified accountant you may save fees but you will not be getting the best service available.

Advertising

All advertising costs you incur in order to promote your business are tax deductible. This can include adverts in magazines and directories, the set up and design of your website and the design of a logo for your business. Should you decide to undertake networking in order to promote your business such as BNI or other such groups, these costs are also tax deductible. You may also use promotional gifts to advertise yourself such as pens, mousemats, pads and anything else you can print your company details on.

Bank charges

When you set up a new business, it is advisable to have a business bank account. If you have a limited company then this is compulsory, however as a self-employed this is your decision. Banks usually give free banking for a period of time (usually 18 months, depending on the bank). After this time the bank charges kick in and these become a cost of the business. This cost is tax deductible. It is always better to have a business bank account as in the event of an HMRC enquiry your business bank statements will need to be produced and they do not need to see your personal spending.

Childcare vouchers

As a director of a limited company you are also an employee and therefore may be able to take advantage of the company paying for some of your childcare. This does not apply to self-employed people.

Clothing

Items that are needed in order to carry out your business but you would not wear out and about are tax deductible. These would include helmets, overalls, high-vis, gloves, and boots. If you do not have these receipts, HMRC does allow us a flat rate for the repair and replacement of clothing and their cleaning each year. Contact us for the allowable rate in your trade. Uniform where the clothing features company branding printed or embroidered on it is also allowable.

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Director salaries (only if limited company)

If you are trading as self-employed, you will not be paid a salary. You will be taxed on your profits made. As the owner and director of a limited company you may receive a salary as a director of the company. It is not tax efficient to withdraw a high salary from your company. The salary you withdraw from your company (which is tax deductible) also depends on other income you may receive including pensions. Before deciding how much salary to withdraw discuss this with your accountant first who will be able to advise you of the best salary payment to take. This figure is likely to change each year depending on the personal allowance and national insurance limits.

Donations

As a self-employed person, donations made can be used to increase your basic rate tax band and therefore allow you to pay less tax at the higher rate. If you are not a higher rate taxpayer there is no tax benefit to your donations. As a limited company, donations made are tax deductible and so would save you corporation tax.

Entertainment

Entertainment is a cost that we may have to incur in order to promote our business such as taking our clients to lunch or dinner. Even though this is a cost to the business, it is not tax deductible and so cannot be used to reduce our profits.

Fixed assets

Assets used in the running of your business can be classed as fixed assets. HMRC allow us to use capital allowances to reduce the value of these assets. Over the past few years we have been entitled to annual investment allowance (AIA) of 100% on plant & machinery purchased that year. Not all items are considered as plant & machinery, so check before buying. There are limits in place to the amount available so check first before spending. Example: the purchase of a new van can reduce your profits by 100% of the cost in the year. This is a huge potential tax saving.

Health insurance

This is a cost only relevant to limited companies. Health insurance in the company name is a tax deductible cost. It will reduce the company profits but it will bring rise to a benefit in kind (BIK). Tax is payable on BIK by the person receiving the benefit and by the company at the employers national insurance rate.

Insurance – PII

All business, no matter what size and type, will have to have professional indemnity insurance. This is an essential cost to running your own business and so it is a tax deductible cost.

Interest payable

There may be times when we need to take out a business loan and interest is payable. This interest is an allowable cost. We must use this money for business purposes and this includes day-to-day running of the business, purchase of assets for the business or even just an overdraft.

Sometimes in a limited company it is not possible to take a loan out in the company name. It is possible to take the loan out in your personal name and then loan this money to the company. If you do this you must ensure there is a loan agreement between you and the company and the repayments made to you equate to the repayments you make to repay the loan.

Legal and professional fees

At times we may need to undertake the services of a solicitor or professional person. These are tax deductible assuming they are 100% for business purposes and this should be shown on the invoice.

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Life insurance

Many life insurance companies are able to offer a policy in the name of the company where the beneficiary is the employee's family. The cost of the policy is a tax deductible payment and a great way of ensuring that a director's life is covered and where their family would benefit in the event of a death.

Mileage – use of own car

It is not always beneficial for a company to own the car. However, we frequently need to use our car to travel to clients or for business purposes. HMRC have therefore issued some allowable rates. An employee/director can claim the use of their own car from the company at the rate of 45p per mile for the first 10,000 miles and then at 25p thereafter (rates are as at 06.04.2014). Any business miles done should be logged together with where you went, who you went to see and the purpose.



Motor expenses

Mileage allowance is a benefit where the business does not own the car. If the company owns the car then the employee will have a BIK on the personal use of the car.

For self-employed individuals, it is usual for them to use their vehicle for business and private use and they should record mileage as well as keeping all their receipts. It may be more tax efficient to claim a percentage of all costs against business rather than doing mileage. Each method should be kept each year and the higher cost should be considered to reduce the profits.

Pension contributions

Pension contributions made by limited companies into employees/directors pension pots are tax deductible. There are limits on the amounts invested each year, currently £50,000 per annum (as at 06.04.2014).

Pension contributions made by self-employed can only claim the higher rate tax relief on their tax returns.

HMRC have introduced auto-enrolment to ALL employees and your starting date depends on your PAYE reference. Please check when your starting date is as it is compulsory to undertake auto-enrolment for the majority of businesses with employees.

Rent, rates and other property expenses

We may rent external office/premises for our business and this is an allowable cost as are the other costs associated with renting an office such as rates, utilities, building and contents insurance.

Software

In order to carry out our business it may be necessary to have software and to update this annually. Even though this is a large cost at times it is not a fixed asset and so can be written off each year. The investment in a good software can save you time and make more money.

Staff parties

Our employees are necessary for our business to run smoothly and efficiently. Therefore, it is always nice to reward them. HMRC allow us to reward our employees with a staff party each year. The total cost of the event should not be more than £150 (inclusive of VAT) per employee and should be one event. Do not exceed this amount or else the whole cost is not allowable. The total cost can include the travel, event and accommodation. Happy partying!

Staff training & welfare

Training of our staff and us is a necessary part of the business. These may include continual professional development, learning new software or enhancing our knowledge and so are all allowable costs.

Welfare of our staff and clients would include the supply of tea, coffee, drinks and perhaps biscuits (such as coffee biscuits). There are all allowable costs but you must be careful when working from home and claiming these costs. It may be best to buy separate items and keep them in a separate place.

Stationery, postage & printing

Even though we have emails and other forms of communication, most businesses have to incur stationery and the cost of postage. Naturally these are tax deductible. Most of us would have printed business card, headed paper and compliment slips. We may also send out Christmas cards to our clients and even a small gift. These are all tax deductible. Regarding the gift we send out, we should try to have a gift that promotes our business.



Subscriptions and periodicals

In order to keep up to date with the changes in our industry it is necessary to subscribe to various publications and periodicals. Many professionals are required to be registered with a supervisory body. All these costs are necessary to our business and so are allowable.

Telephone & internet

In our competitive fields we need to be available to our clients, be it via phone, email or both. Sometimes it is necessary to have 2 mobile phones and so these costs are allowable.

If you work from home and use the internet for business use, you should pay a different cost for the internet and not have it all rolled into one package that includes phone, internet, and television etc. If you use your home landline for business calls, the rental charge is not an allowable cost. You may prefer to have a different landline number for business.

Travel and subsistence expenses

Many of us have to travel to our clients and thus this cost is allowable, whether it be by train, bus, taxi or flights. We are also permitted to claim the cost of meetings we may need to do in order to get work.

While away on business trips it may be necessary to stay in hotels and this cost is allowable. We will also need to pay for food while we are away travelling. If we can produce the receipts these are allowable costs but note that the cost is only allowable for you and not all clients that you may invite.

If you are unable to provide full receipts, HMRC allow benchmark amounts to be considered. Please contact us for the current rates on these.

Use of home

HMRC allow us a rate of £4 (as at 06.04.2014) per week for the use of our home for business purposes. An alternative method to use is the number of hours you use in your home as a percentage of 24 hours and based on the number of rooms in your home. This is a complex calculation but may be worth considering if you are mainly based at home. Call us to help you do the calculation.

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