



A guide to expenses for Partnerships and the Self-Employed

IT IS IMPORTANT THAT A SELF-EMPLOYED INDIVIDUAL OR A PARTNERSHIP CLAIM ALL THE EXPENSES TO WHICH THEY ARE ENTITLED.

Most businesses will be focused on the tax benefits associated with claiming all possible expenses, and it is certainly important to ensure that tax liabilities are reduced to the legal minimum that is required to be paid. However, it is also very important that the owners of a business understand its financial position so that profitability and growth can be managed.

This is an A to Z guide which identifies the most common expenses associated with running a business.

This booklet covers the main principles of expenses for partnerships and the self-employed. Please note that it should be taken as a general introduction only and our team would be happy to discuss this with you in further detail.

GENERAL RULE

The general rule is that an expense is allowable if it is 'wholly and exclusively' incurred for the purposes of the business. This 'wholly and exclusively' rule is relaxed where private and business elements can be separated. An example of this is motor expenses, where the business and private mileage can be identified. Where there is mixed use of expenditure that cannot be separated the whole of the expenditure is not allowable for tax. This is common with flights where a trip is partly for business and partly for private purposes – it is not possible to establish a proportion of the flight cost that is for the business. This type of expenditure is said to have a 'duality of purpose'.

CAPITAL AND REVENUE EXPENDITURE

It is important to understand the distinction between revenue and capital expenditure. Revenue expenditure can generally be relieved against income in the year in which it is incurred, while capital expenditure will generally only be tax deductible if it qualifies for capital allowances. Small businesses are generally able to claim a full deduction for allowable capital expenditure under the Annual Investment Allowance regime. Capital expenditure should be planned for carefully to ensure that the maximum deduction can be claimed. Generally speaking, capital expenses are those that will benefit the business for more than two years, while revenue expenses are those that benefit the business for fewer than two years.

SPECIFIC EXPENSES

Accountancy, Legal & Professional Fees – In most cases accountancy, legal and any other professional fees are allowable expenses providing they are solely related to the operation of a business. Legal fees relating to the purchase or sale of large assets such as property are capital costs and cannot be set against income. HMRC view the costs of settling tax disputes as disallowable, but by concession these costs are allowed if there were only minor changes following an HMRC investigation.

Advertising & Marketing – All advertising and marketing costs of a business are allowable expenses including literature, business cards and leaflets. Advertisements in print and online, trade shows, as well as networking meeting fees are also claimable. However, be aware of the 'Entertaining' rules mentioned below.

Bank Interest, Overdraft Charges, Credit Card Charges & PayPal Fees – All banking fees from a business account can be claimed as an expense, as long as it is separate from an individual's personal account. However, a proportional percentage of the fees can be claimed on a personal account if it is used for business purposes. However, there can be instances where bank interest relates to personal drawings, and this interest is not allowable.

Broadband – If a business has a separate broadband contract to an individual's personal premises then the entire cost is allowable. If a person uses their home broadband network then they can claim for the percentage of the time it is used for business.

Business Use of Home – If a person works from home they are generally able to claim a proportion of their electric, gas, water, council tax, insurance and mortgage interest or rent as an allowable expense. A proportion of professional cleaning fees can also be claimed as an expense. The amount claimed is based upon the proportion of a home that is used for business purposes and the amount of time working from home.

Alternatively, HMRC approved flat rate expenses can be claimed instead as follows:

Hours of business use per month	Flat rate per month
25 to 50	£10
51 to 100	£18
101 and more	£26

Charitable Donations – Tax relief can be claimed by an individual on donations to charity made via the gift aid scheme. However, charitable donations are not an allowable expense against business income and should be taken into account separately in a Self Assessment tax return.

Childcare – Childcare is not an allowable expense.

Clothing – The majority of clothing cannot be claimed as an expense. However, where one is required to wear a uniform or costume for the purposes of the business then these can be claimed. Clothing bearing a firm's logo is also an allowable expense, as is protective clothing and equipment. Clothes that can also be worn other than for work are generally not allowable.

Computer Equipment, Consumables and Software – Computers are generally considered capital items, and capital allowances should be claimed on these. A restriction for private use of computer equipment should be considered.

Software and consumables are usually revenue items and a full deduction should be allowed.

Cost of Sales – All costs relating to purchasing goods for re-sale are an allowable expense, as are the costs of services sub-contracted to another supplier.

Entertaining – A business cannot claim any expense for entertaining clients, contacts or suppliers. However, they can claim for the cost of entertaining staff.

In order for the cost not to be a taxable benefit on staff, the staff entertainment must be an event open to all staff and cost less than £150 per person present. More than one event can be claimed in a tax year, but the cost of the entire events programme together must not cost more than £150 per head otherwise a benefit in kind may arise.

Food & Drink (Home or Office) – If a business does not have any staff then it cannot claim the cost of food or drink. Businesses with employees can claim the cost of providing basic food and drink for their employees (such as tea and biscuits) and free meals of a reasonable value provided at a workplace canteen as long as they are available to all staff.

Food & Drink (Travelling) – A deduction for food and drink is only allowed when a journey is made outside of a normal working pattern, or if a person is staying away from home overnight for business purposes. For example, a travelling musician can claim subsistence costs for food and drink whilst travelling to different venues. A self-employed consultant can claim subsistence costs for food and drink whilst travelling to meetings or conferences away from their normal place of work.

Office Furniture – In most cases furniture will be considered capital expenditure and capital allowances should be claimed.

Gifts – Gifts from a business to its employees are an allowable expense. However, be aware that some gifts may be considered benefits in kind and taxable on those employees.

Gifts to someone outside of the business are an allowable expense as long as the gift is prominently marked with the business's name or logo and are not food, drink, tobacco or vouchers. The gift must also cost less than £50 per recipient to be eligible.

Insurance – Any policy that is solely for business purposes can be claimed as an allowable expense. However, health insurance is not classed as a business expense. Health insurance paid on behalf of employees is an allowable expense but is also a taxable benefit in kind.

Irrecoverable Debts – If a customer does not pay their invoices, then the amount of their unpaid invoices can be claimed as an irrecoverable debt.

Loan Interest – The interest on a loan can be claimed as a business expense if the funds were used solely for business purposes, but the capital element of the loan repayment itself cannot be claimed as an expense.

Mileage – A business can claim mileage allowance for business journeys in a car owned by the business owner, which covers the cost of fuel, running costs, and wear and tear. The current tax-free mileage rates, as set by HM Revenue & Customs, are shown below:

Type of vehicle	First 10,000 miles	Above 10,000 miles
Cars and vans	45p	25p
Motorcycles	24p	24p
Bikes	20p	20p

As an alternative to the mileage allowance a business can claim the actual costs xxx (see below).

National Insurance – Class 2 & Class 4 National insurance payments are not a deductible expense. Both are paid by self-employed persons and members of partnerships via their personal tax returns.

Office Costs – All of the associated costs of running an office such as electric, gas, water, rent, business rates and cleaning can be claimed as an allowable business expense. Where the office is run from home, please refer to 'Business Use of Home' above.

Parking Fees, Parking Fines & Speeding Tickets – The cost of parking is an allowable expense but fines and speeding tickets are not, even if the fines were incurred during a business journey. Any admin fees relating to these fines are not allowable either.

Personal Purchases & Drawings – These are not an allowable expense.

Pension Contributions – Contributions to an individual's personal pension are not an allowable expense. However, pension contributions paid by individuals are normally paid net and grossed up by the basic rate of tax by the scheme administrator. Higher rate or additional rate taxpayers can claim further tax relief on their pension contributions via their Self Assessment tax returns. Contributions paid into a workplace pension scheme for employees are an allowable expense.

Postage & Courier Costs – Postage or courier costs can be claimed as an expense if they relate to the business. This includes posting paperwork to customers and suppliers and the delivery of goods.

Pre-Trade Expenses – Within a business's first accounting period they can claim relief for pre-trade expenses incurred up to seven years prior to the business commencing trading, providing that these expenses can be clearly shown to relate to that the trade being carried out.

Professional Subscriptions – Subscriptions to relevant professional bodies can be claimed as an expense. For example, a solicitor can claim the costs of membership to the Law Society. A business can also claim subscriptions to trade associations such as their local Chamber of Commerce.

Staff Costs – Salaries, bonuses, pension contributions and benefits paid to employees, plus NICs thereon, are an allowable deduction, as are agency fees and subcontractor labour costs.

Stationery – Any stationery bought for and used in the business can be claimed as an allowable expense.

Telephone (Landlines & Mobiles) – If there is a separate contract for the business only then the whole cost of the contract, including line rental and calls, can be claimed as an expense. However if a business uses a home phone or personal mobile then only the percentage used by the business can be claimed for.



Training & Personal Development – Courses and training that update existing skills or expertise can be claimed as an allowable expense. However, a self-employed person or partner cannot claim costs for acquiring any new skills or knowledge because this is viewed as capital expenditure.

Travel – If the main purpose of the journey is for business purposes, and a business can separate any personal costs, then it can claim for the cost of travel, including flights, train tickets, tolls, parking costs and hotel/accommodation.

Vehicles – Any car or van purchased through a business will be classed as a capital asset and is therefore eligible for capital allowances. If a vehicle is used for both business and personal purposes the capital allowances claims are restricted to the business use proportion. Running costs can also be claimed. See 'Mileage' for more details.

Website Costs – Typically, the cost of building a website, hosting fees, domain fees and email hosting are all allowable expenses. However, the costs of building the website in some circumstances may be regarded as capital.

WHERE WILSON WRIGHT CAN HELP

The award-winning team at Wilson Wright is familiar with all aspects of the UK tax regime, including deductible business expenses and capital allowances.

We can provide advice tailored to each individual's requirements, ensuring tax is minimised where possible, while maintaining compliance at all times.



MEET THE TEAM

If you require further information or guidance on any of the matters in this guide, do not hesitate to contact the Wilson Wright team.

For full details of our services please visit wilsonwright.com or call 020 7832 0444.

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