

Guidelines for claiming expenses against tax

The purpose of this summary document is to set out a brief overview of expenses that may be claimed by both self-employed and employed persons against the income received for the provision of their services. Generally speaking, there is far greater scope for self-employed persons to offset expenses against their income than for employees.

Self-employment

Allowable expenses for those in self-employment

Full details of allowable expenses are set out by HM Revenue & Customs in the document 'Tax return: Self-employment (full) notes', a copy of which can be provided on request. Alternatively it can be viewed at www.hmrc.gov.uk.

If you are self-employed you should familiarize yourself with the contents of this document to ensure that you are claiming all expenses that you may be entitled to and thus keep your tax bill to a minimum.

The main headings to consider include:

- Cost of goods bought for resale, raw materials used, direct costs of producing goods sold, commissions payable and discounts given.
- Construction Industry Subcontractor payments (before taking off any tax).
- Salaries, wages, bonuses, pension and benefits paid to staff; agency fees, subcontract labour costs and employers' NI.
- Car and van insurance, repairs, servicing, fuel, parking, hire charges, licence fees, motoring organization membership (excluding any private use of car and van).
- Train, bus, air and taxi fares.
- Hotel room costs and meals on overnight business trips.
- Business premises rent, rates, light, heat, power, insurance, security (use of home as office – business proportion only).
- Repairs and maintenance of business premises and equipment; renewals of small tools and items of equipment
- Telephone, fax, postage, stationery, printing, small office costs and computer software.
- Advertising, mailshots, free samples and website costs.
- Interest on bank and other business loans.
- Bank, overdraft and credit card charges, hire purchase interest and leasing payments, alternative finance payments.
- Amounts included in turnover but unpaid and written off because they will not be recovered.
- Accountants', solicitors', surveyors', architects and other professional fees.
- Trade or professional journals and subscriptions; other sundry business running expenses.

The cost of any equipment or machinery used in the business should not be included. Instead, capital allowances are claimed on these items. This is the tax relief equivalent of depreciation.

Disallowable expenses for those in self-employment:

- The cost of goods or materials bought for private use.
- Payments made for non-business work.
- Own wages and drawings, pension payments, tax and NIC contributions.
- Non-business motoring costs (private use proportions), fines, cost of buying vehicles, travel between home and business.
- Meals not specified as allowable.
- Costs of any non-business part of the premises.
- Costs of buying business premises.
- Repairs to non-business parts of premises or equipment.
- Costs of improving or altering premises and equipment.
- Non-business or private use proportion of expenses (telephone, fax, computer hardware etc.).
- Entertaining clients, suppliers and customers and hospitality at events.
- Repayment of loans or overdrafts.
- Debts not included in turnover, debts relating to fixed assets, general bad debt provisions.
- Legal costs of buying property.
- Costs of settling tax disputes and fines.
- Depreciation of equipment, cars etc.
- Losses on sales of assets.
- Payments to clubs, charities or political parties.
- Non-business part of any expenses.
- Cost of ordinary clothing.

As a general principle it is helpful to keep your private expenditure separate from your business expenditure, otherwise certain costs will need to be apportioned between private and business use.

Employment

Generally speaking, most employees recover the cost of expenses that they may have incurred on behalf of their employer by submission of an expenses claim to that employer.

Such expenses that have already been remunerated by the employer obviously cannot be claimed again in a tax return.

For expenses that have not been reimbursed by the employer, to be allowable for tax purposes they will need to have been incurred wholly, necessarily and exclusively in connection with the employer's business (e.g. professional subscriptions).

In the event that you are employed but your expenses are either not repaid by your employer at all, or not fully repaid to the extent that HM Revenue & Customs allow, then the following general guidelines can be used:

General	As already indicated expenses must be wholly necessarily and exclusively incurred for the performance of an assignment. Wherever possible VAT receipts must be obtained.
Travel	<p>Employees are eligible to claim expenses incurred for travel and subsistence only when they are working at a temporary workplace (a temporary workplace is defined as a place which an employee attends only to perform a task of limited duration or temporary purpose).</p> <p>Where an employee has spent, or is likely to spend, 40% or more of his/her working time at a particular client site for a period of more than 24 months the workplace will be defined as a permanent workplace (therefore expenses are not allowable).</p> <p>Rail/tube, bus, taxi, air travel and parking/toll charges are all claimable with copies of receipts.</p>
Mileage claims	<p>Receipts are not required for mileage claims but a log of business miles (see above) will need to be completed.</p> <p>The following rates can be claimed:</p> <ul style="list-style-type: none">• Car – 45p per mile for the first 10,000 miles and 25p per mile thereafter.• Motorbike – 24 p per mile regardless of total mileage.• Bicycle – 20p per mile regardless of mileage.
Subsistence	<p>Employees can claim the cost of their meals when working away from their permanent workplace. Claims should have supporting receipts.</p> <ul style="list-style-type: none">• Breakfast expenses are claimable if you are required to stay away overnight and the accommodation charge excludes breakfast.• Reasonable lunch expenses can be claimed if you work over 5 hours at one site.• Reasonable dinner expenses can be claimed if you work over 10 hours at one site.
Accommodation	<p>Employees who are required, for their work, to stay away from home overnight may claim the cost of accommodation.</p> <p>Wherever possible meals should be included in this cost.</p> <ul style="list-style-type: none">• Hotels/Bed and Breakfasts – receipts are required.• If staying with friends/relatives the maximum that can be claimed without receipt is £25 per night.• When required to stay away from home up to £5 per night can be claimed for personal incidental expenses (i.e. newspapers, laundry etc.) This increases to £10 per night if you are overseas.
Mobile phones	If an employee is required to make business calls from a home telephone or private mobile the cost can be claimed. Details of the business call (ie person called and reason for call must be recorded and copies of itemised bills with business calls highlighted are required to support the claim. The cost of line rentals cannot be claimed.
Protective clothing/uniforms	Employees can also claim for the cost of protective clothing and uniforms if the end user specifically requires these. Copies of receipts are required to support the claim. Employees may also claim the cost of cleaning, laundry or repair or protective clothing/uniforms. Receipts are required to support the claim.
