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10 Secrets For Claiming Business Expenses

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Article:

For many businesspeople, the separation between what are “allowable” and “non-allowable” business expenses is a complex one. Combined with the politicians claiming for everything from moat clearing and dog food to toilet seats, the whole subject fraught with tension and stress.

The following is a guide to ten secrets for claiming business expenses – however, you should always consult an accountant if you need clarification. An accountant will be able to advise you on how these items apply to your business and what the current view of HMRC is on any particular issue.

1. Allowable expenses

Deductions can be made from your turnover that cover costs incurred for the purpose of generating business profits, such as cleaning costs, utilities, business insurance, postage and office rental. You cannot claim costs incurred in non-business activities, only those incurred 'wholly, exclusively and necessarily' in performing your business duties.

Many small businesses may also be able to claim expenses which are 'dual purpose' – part of these expenses can be claimed against the business. An example of this would be that you can claim the proportion of your personal telephone bill relating to business calls. Ultimately what you can claim will depend on what kind of business you run, and this is where an accountant can help you.

2. Capital allowances

The purchase of business equipment or premises cannot be counted as an expense. These items are dealt with by claiming capital allowances which can then be offset against profits. Companies can deduct a proportion of capital against taxable profits, although the rate will vary depending on what you are claiming for.

If you are purchasing business equipment such as tools, computers, furniture and machines, the capital allowance rate is 25% per year. However, if you are a small company you can claim up to 40% allowance in your first year and in some cases, you can claim 100% in the year following the purchase. A word of caution – allowable rates for tax purposes often change from year to year, so it is worth checking the current rates before the accounts are finalised.

3. Benefits in kind

If a company pays for anything for the personal use of an employee, or director, these expenses would typically result in a 'benefit in kind' charge, i.e. income tax and national insurance for the employee and national insurance liabilities for the employer. Using a business credit card to pay for such expenses can avoid the need for the expenses to be reimbursed. You can also apply for dispensation to cover reimbursement of expenses to employees. This will save you reporting issues covered by the dispensation on P11D forms.

4. P11D form

An employer must complete a P11D Expenses and Benefits form each year for each employee earning £8500 or more including benefits and all directors. The P11D contains details of all expenses claimed by each employee/director during the tax year to 5th April. A similar form, the P9D is used for employees earning less than £8500 per annum. All completed P11D forms must be returned to HMRC by 6th July each year.

Repaying a director for business expenses has to be reported too, although you need to claim the cost on your tax return as well as recording the reimbursement.

5. Travel expenses

Travel costs incurred wholly, exclusively and necessarily on company business can be reimbursed. However, travel from home to work is not allowed.

Travelling to a client site or temporary workplace can be claimed. According to the Revenue “a workplace is not a temporary workplace if the employee can expect to work there in a continuous period of work lasting 24 months or more.”

If you use your own car for business purposes, you can claim 40p per mile (to a maximum of 10 000 miles) and 25p per mile after that per tax year.

6. Overnight allowances

The cost of staying away on business is in general a tax-deductible expense. However, all expenses claimed for as costs incurred must be deemed as reasonable (i.e. meals, drinks and accommodation). There is also an allowance made by the Revenue for what is classed as “incidental overnight expenses”. These are £10 for overseas stays and £5 per night to cover stays within the UK.

You cannot however claim lunch for the day while out of the office on business as you would have paid for this personally if you had been working at your usual location. Also taking a potential client out for lunch is not tax-deductible. This can be shown on the business accounts as a cost, but it would be disallowed for tax purposes.

7. Working from home

The issue of claiming expenses for working from home is a complex one and as more people choose to work from home now it is an area most likely to be challenged by the Revenue.

Some accountants suggest that the answer is to calculate the proportion of your house that is used for business purposes either as a fraction of the number of rooms used or by area of floor space used. Then apply this figure when claiming against utility bills.

It is definitely worth checking with an accountant when making expense claims for working from home as there some grey areas and potential pitfalls.

8. Business expenses and VAT

The rules for claiming Value Added Tax (VAT) further complicate the issue of claiming business expenses. The rules are not always the same as claiming expenses for income tax purposes.

For the purpose of VAT calculations expenses are viewed as being “non-business”, “taxable” and “exempt”. If you are registered for VAT you can only reclaim the VAT on purchases which have been made purely for business reasons.

The HMRC publish a useful document on VAT calculations and it is always worth checking with your accountant before making a claim in this area.

9. Keeping records

You are very likely to collect a large number of receipts and business expenses documentation over the year. It is essential that you keep accurate records to back up any claims when calculating both business and personal tax each year. Keep your receipts for a minimum of six years as the Revenue, if they do decide to investigate, can go back as far as six years.

10. A brief summary of allowable expenses

This is not a comprehensive list of expenditure, but it does include the most common expenses that can be reclaimed where deemed to be “wholly and exclusively” necessary:

- Company formation expenses
- Accountancy fees
- Business travelling
- Postage for business
- Contributions to Executive pension plan
- Business entertainment
- Equipment purchased for business purposes
- Business mileage
- Computer software
- Technical books and journals
- Subscription
- Rental of office
- Use of home office
- Stationery for business purposes
- Telephone calls for business purposes
- Business mobile telephone and calls
- Computer equipment

- Employers' NI contribution
- Taxi fares
- Overnight allowance

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