

Tax help series

Expenses and allowances for the self-employed - what you need to know

If you are self-employed you'll have various running costs and expenses. You take these costs and expenses away from your business income to work out the profit in your accounts. You can only deduct certain expenses as they aren't all allowable for tax purposes. You can also claim capital allowances for certain other costs or expenditure to reduce your taxable profits.

Here we tell you:

- what we mean by allowable expenses
- the effect of VAT
- what expenditure is eligible for capital allowances
- how to claim capital allowances
- where to get more help and guidance.

What we mean by allowable expenses

The general rule is that costs you pay with the sole purpose of earning business profits are allowable expenses. Please note that you can't deduct costs:

- for non-business or personal purposes
- for buying or improving fixed assets or capital items which last for several years. For more information, go to www.hmrc.gov.uk/incometax/relief/self-emp.htm
- which are recoverable under an insurance policy.

The table on the next page shows examples of expenses which are allowable and those that are not.

The effect of VAT

VAT can affect the amount you include in your allowable expenses.

If you are VAT registered - use the net amount (expense less VAT) to reduce your turnover, but you can only do this if the VAT on that expense is recoverable. You should also show turnover net of VAT. Alternatively, receipts and allowable expenses can be shown gross (including VAT) with the net payment to HMRC classified as an expense.

If you aren't VAT registered - use the total amount spent on the expense (including VAT).

For more information on VAT and what expenses are recoverable:

- go to www.hmrc.gov.uk/vat/managing/reclaiming/reclaim.htm
- phone our VAT Helpline on **0845 010 9000**. Open from 8am to 6pm Monday to Friday. Closed weekends and bank holidays.

Customers with particular needs

If you need extra help, please let us know. For example, if:

- English is not your first language
- you would like us to use a certain format to communicate with you, for example, Braille or Text Relay. If you use Text Relay by – textphone, dial **18001** + number – phone, dial **1800** + number
- you would like us to visit you at home because it's difficult for you to get to one of our offices.

What if you're unhappy with our service

If you're unhappy with our service, please contact the person or office you have been dealing with. They will try to put things right. If you are still unhappy, they will tell you how to complain.

If you want to know more about making a complaint go to

www.hmrc.gov.uk/complaints-appeals

Your rights and obligations

Your Charter explains what you can expect from us and what we expect from you. For more information go to www.hmrc.gov.uk/charter

Category	Allowable expenses	Non-allowable expenses
Accountancy, legal and other professional fees.	Accountants, solicitors, surveyors, architects and other professional indemnity insurance premiums.	Legal costs of buying property and large items of equipment; costs of settling tax disputes and fines for breaking the law.
Advertising and business entertainment costs.	Advertising in newspapers, directories etc. mailshots, free samples, website costs.	Entertaining clients, suppliers and customers; hospitality at events.
Bank, credit card and other financial charges.	Bank, overdraft and credit card charges; hire purchase interest and leasing payments. Alternative finance payments.	Repayment of the loans or overdrafts or finance arrangements.
Car, van and travel expenses.	Car and van insurance, repairs, servicing, fuel, parking, hire charges, vehicle licence fees, AA/RAC membership; train, bus, air and taxi fares; hotel room costs and meals on overnight business trips.	Non-business motoring costs (private use proportions); fines; costs of buying vehicles; travel costs between home and business; other meals.
Communications, stationery and other office costs (mobile, internet, email costs).	Phone, mobile, internet, email and fax running costs; postage, stationery, printing and small office equipment costs; computer software.	Non-business or private use proportion of expenses; new phone, fax, computer hardware or other equipment costs.
Construction industry - payments to subcontractors.	Construction industry subcontractors payments (before taking off a tax).	Payments for non-business work.
Cost of goods that you are going to sell or use in providing a service.	Cost of goods bought for resale, cost of raw materials used, direct cost of producing goods.	Cost of goods or materials bought for private use; depreciation of equipment.
Depreciation and loss/profit on sale of assets.	Depreciation and loss/profit on sale of assets are not allowable expenses - any amount entered here should also be shown in box 43 of the tax return.	Depreciation of equipment, cars etc. Losses on sales of assets (minus any profits on sales).
Insurance policy.	Costs of any business specific policy.	Recoverable costs.

Self Assessment forms, notes and help sheets

You can get these by:

- phoning the SA Orderline on **0845 900 0404**
- going online at **www.hmrc.gov.uk/findaform**

For all Self Assessment forms, go to **www.hmrc.gov.uk/selfassessmentforms**

If you need help

For help and advice on completing your tax return and for general advice about Self Assessment, go to **www.hmrc.gov.uk/sa/index.htm**

Or for more information on how to phone or write to us, go to **www.hmrc.gov.uk/contactus/sa**

Category <i>continued</i>	Allowable expenses <i>continued</i>	Non-allowable expenses <i>continued</i>
Interest on bank and other business loans.	Interest on bank and other business loans. Alternative finance payments.	Repayment of the loans or overdrafts, or finance arrangements.
Irrecoverable debts written off.	Amounts included in turnover but unpaid and written off because they will not be recovered.	Debts not included in turnover; debts relating to fixed assets; general bad debts.
Other business expenses.	Trade or professional journals and subscriptions; other sundry business running expenses not included elsewhere.	Payments to clubs, charities, political parties etc.; non-business part of any expenses; cost of ordinary clothing.
Rent, rates, power and insurance costs.	Rent for business premises, business and water rates, light, heat, power, property insurance, security; use of home as office (business proportion only).	Costs of any non-business part of premises; costs of buying business premises.
Repairs and renewals for property and equipment.	Repairs and maintenance of business premises and equipment; renewals of small tools and items of equipment.	Repairs of non-business parts of premises or equipment; costs of improving or altering premises and equipment.
Wages, salaries and other staff costs.	Salaries, wages, bonuses, pensions, benefits for staff or employees; agency fees, subcontractor costs, employers' NICs etc.	Own wages and drawings, pension payments or NICs; payments for non-business work.

To find out more about which expenses are allowable, please look at the section on 'Allowable and non-allowable business expenses' on our website. Go to www.hmrc.gov.uk/income-tax/relief-self-emp.htm

Business expenses are only allowed in your accounts if they relate to that accounting period. If you make a payment which covers more than one accounting period, you should spread that cost over the periods that it relates to. For example, if you pay 12 months rent in advance halfway through a year, only the half of the payment for the current period should be included in that year's accounts. The other half should be included in the following period.

What expenditure is eligible for capital allowances

Capital allowances are commonly claimed on items that you might use in your business over several years. Generally speaking, anything that you use in your business that has a useful life of over two years may qualify for an allowance.

You can claim capital allowances for certain items that you can't claim as an allowable expense, for example:

- plant and machinery - including cars, vans, computers, tools
- fixtures and fittings - including shelves, furniture, fittings.

You can't claim for things you buy or sell as your trade - these are claimed as business expenses. If you buy an item on hire purchase, you can claim a capital allowance on the original cost of the item but the interest and other charges count as business expenses.

There are also rules that affect the amount of capital allowances you can claim if items are partially used for personal use. For more information, go to www.hmrc.gov.uk/capital-allowances/basics.htm

How to claim capital allowances

You claim capital allowances by completing the relevant boxes on the *Self-employment* pages of your Self Assessment return. When making the claim:

- if your accounting year is not the same as the tax year, you will need to apportion the expense. Please go to www.hmrc.gov.uk/capital-allowances/basics.htm#7
- you can make a capital allowance claim at any point up to the normal time limit for making or amending your tax return. This will be extended if there is a check into the return.

If your business is a partnership, you need to claim your capital allowances collectively on the trading sections of the Partnership Tax Return, not on your individual returns.

If you are registered for VAT, you only claim capital allowances on the net cost of the asset. If you are not registered for VAT, you claim capital allowances on the total cost including VAT.

Leasing arrangements

Capital allowances cannot be claimed on a short term lease (less than five years). Leasing payments can be claimed as an allowable business expense. For more information, go to www.hmrc.gov.uk/manuals/camanual/CA21000.htm

do not use

Withdrawn

These notes are for guidance only and reflect the position at the time of writing. They do not affect any right of appeal.
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