



HM Revenue
& Customs

Private and Personal Expenditure Toolkit

2018-19 Self Assessment Tax Returns

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Introduction

Tax agents and advisers play an important role in helping their clients to get their tax returns correct. This toolkit is aimed at helping and supporting tax agents and advisers by providing guidance on the errors we find commonly occur in relation to private and personal expenditure. It may also be helpful to anyone who is completing an Income Tax Self Assessment tax return.

This version of the toolkit was published in April 2019. The risks in this toolkit have been reviewed and updated where necessary for 2018-19. The toolkit is applicable for financial years commencing 6 April 2018 for Income Tax Self Assessment tax returns. Its use is entirely voluntary.

The content of this toolkit is based on our view of how tax law should be applied. Its application to specific cases will depend on the law at the relevant time and on the precise facts.

For further information on using this toolkit and reasonable care under our penalty system see [Tax agents toolkits](#).

For guidance on matters not dealt with in this toolkit you should refer to our [Business Income Manual \(BIM\)](#).

Areas of risk within private and personal expenditure

The general principle and starting point in calculating the tax liability is that the accounts are prepared under Generally Accepted Accountancy Practice (GAAP). The accounting profits are then adjusted in accordance with the provisions of the Taxes Acts and relevant case law.

Not everything charged in the profit and loss account of a trade, profession or vocation is an allowable deduction for tax purposes. For example, you normally add back depreciation when you compute the taxable profits. This toolkit covers expenditure for revenue purposes only.

A taxpayer may not deduct expenditure in computing their profits unless it is incurred wholly and exclusively for the purposes of the trade. Please see [S34 Income Tax \(Trading and Other Income\) Act 2005 \(ITTOIA 2005\)](#).

This toolkit does not reflect any differences which may arise from the application of the cash basis which is available from 2013-14 for the simplest small businesses. For further information see [BIM70000+](#).

Areas of risk within private and personal expenditure fall broadly into five categories:

Record keeping

Good record keeping is essential as poorly kept records can mean that information provided is not accurate. This may result in non-business expenses being incorrectly recorded or mis-posted in the business records and claimed in error as allowable expenses. Conversely justifiable business expenditure may not be claimed or claimed inaccurately.

Proprietors or partners of the business may not always appreciate the distinction between business and non-business expenditure, particularly in the more complex areas such as travel and subsistence. It is important to consider the business circumstances in full and review the records kept.

Personal bills

In many businesses the proprietor's or partners' finances and those of the business are closely linked. This can result in personal expenses being paid by the business and/or business expenses paid by the proprietor or partners. To ensure all relevant business expenditure is properly charged in the accounts, it is important to review the expenses claimed and consider whether all deductions are wholly and exclusively for the purposes of the business. There are

circumstances where the expenses are not for the sole purpose of the business, for example when the proprietor uses their home for business. Generally these expenses should be apportioned and only the business element allowed as a deduction in the accounts or computation.

For 2013-14 onwards, 'simplified expenses' provide an alternative method to unincorporated businesses of working out the allowable expenses, using flat rates instead of apportioning the actual expenses incurred. 'Simplified expenses' can be used for:

- motor vehicles
- use of home
- private use of business premises.

For further information see **BIM75000+**.

Travel and subsistence

Travel and subsistence can be a complex area involving special rules. Often the expenses a proprietor or partner incurs will be wholly and exclusively for the purposes of the trade. However there are circumstances when the expense may appear to have a business purpose yet is not wholly allowable, particularly where there is a business and personal purpose (a mixed purpose). It is important to establish all of the facts when considering whether such an expense is allowable.

Entertaining, gifts, subscriptions and sponsorship

The general principle is that entertaining and gifts are specifically disallowed.

There are a few exceptions to the general principle. For example entertaining employees (within certain limits) and small gifts that include advertising will normally be allowed. If the facts are not established this can lead to entertaining and gifts being incorrectly claimed as allowable.

For subscriptions and sponsorship the general principle is whether the wholly and exclusively test is satisfied. Subscriptions for general charitable purposes and/or to political funds are seldom wholly and exclusively for business purposes and therefore generally not allowed.

Drawings and capital account

It is important that the capital and current accounts of the proprietor or partners accurately reflect the correct position. If drawings are not recorded accurately the capital and/or current accounts may not be correct, for example if drawings are recorded as wages.

Using links within this document

[Blue underlined text](#) are links within this document.

Green bold text are hyperlinks to external documents on the internet (access to the internet is necessary to view these).

We have a range of services for people with disabilities, including guidance in Braille, audio and large print. Most of our forms are also available in large print. Please contact any of our helplines if you need these services.

Dealing with HMRC if you have additional needs

Giving HMRC feedback on toolkits

HMRC would like to hear about your experience of using the toolkits to help develop and prioritise future changes and improvements. HMRC is also interested in your views of any recent interactions you may have had with the department.

[Send HMRC your feedback](#)

Client Name:

Period Ended:

Checklist for private and personal expenditure

Review of accounts

Yes No N/A N/K

- 1 Have [expense headings](#) which could include private or personal expenditure been reviewed to identify any non-business elements?

Personal bills

- 2 Have any [personal](#) expenses paid by credit card been allocated to drawings?

- 3 Have all [business expenses](#) paid by credit card been analysed correctly?

- 4 If there has been interest or [late payment fees](#) charged on credit cards have these been restricted appropriately?

- 5 Has any [interest paid](#) on a loan, hire purchase or other finance for a mixed purpose been restricted appropriately?

- 6 Have any personal or [household bills](#) paid by the business been analysed and allocated appropriately?

Personal bills continued

7 If the proprietor or partner used part of their [home for business](#) purposes has the business element been properly identified?

8 Have the profits been adjusted for the cost of any personal [clothing](#) paid through the business?

Travel and subsistence

9 If a [business vehicle](#) has been used for non-business travel, including home to work, has only the business travel been claimed?

10 If a [private vehicle](#) has been used for business and non-business travel have only the appropriate costs been claimed?

11 Are all expenses claimed for [business trips](#) wholly and exclusively for business purposes?

12 If a [family member](#) accompanied the proprietor or partner on business trip(s) have any associated non-business costs been disallowed?

Travel and subsistence continued

- 13 Have all [business expenses](#) paid by credit card been analysed correctly?

Entertaining, gifts, subscriptions and sponsorship

- 14 Have profits been adjusted appropriately for any [entertaining](#) expenses paid?

- 15 Have profits been adjusted appropriately for [gifts](#) made?

- 16 Have all gifts, donations or [subscriptions](#) to charity been reviewed?

- 17 Have any [sponsorship](#) payments made, particularly to connected parties, been reviewed?

- 18 If the sponsorship includes [hospitality](#) or other benefits have these been dealt with appropriately?

Drawings and capital account

- 19 If the proprietor's or partners' drawings have been described as [wages or salaries](#) have these been properly allocated to drawings?

Drawings and capital account continued

- 20 If there have been wages or salaries paid to relatives or [connected](#) parties are the amounts paid commensurate with their duties?

- 21 If the capital or current account is [overdrawn](#) and a loan is funding the proprietor's or partners' drawings, has the interest been restricted appropriately?

General

- 22 Have the drawings been adjusted for any [trading stock](#) taken for personal use?

- 23 Has an appropriate adjustment been made for [services](#) provided to the proprietor or partner by the business?

- 24 Are all of the payments made to a [registered pension](#) scheme allowable?

- 25 Have the profits been adjusted for any [professional fees](#), paid by the business, for personal tax matters?

Explanation and mitigation of risks

Review of accounts

1. Have expense headings which could include private or personal expenditure been reviewed to identify any non-business elements?

Risk

In a sole trade or partnership business there is a risk that the proprietor or partners may not have correctly distinguished business from personal transactions. This may result in non-business costs being charged in the business accounts resulting in the profits being understated.

Mitigation

A review of the draft profit and loss account may identify account headings where there is an unusual variation or where, based on past experience and knowledge of the business, expenses of a personal nature may be included.

Such account headings may include motor expenses, repairs and renewals, travel and subsistence, sundry expenses and so on. A detailed analysis of these may identify charges which are private or personal and which are more properly charged to drawings.

Ensure that relevant accounts are analysed and that any non-business expenditure is adjusted appropriately.

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Personal bills

2. Have any personal expenses paid by credit card been allocated to drawings?

Risk

Credit cards are often used to pay for both business and personal expenditure. If the personal expenses are not identified there is a risk that the whole of the credit card bill will be included incorrectly as a business expense.

Mitigation

Credit card bills which are used to pay for both business and personal expenditure should be reviewed to ensure that only the business expenditure is allowed. Credit card bills used solely for personal expenditure should not be included as a business expense.

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3. Have all business expenses paid by credit card been analysed correctly?

Risk

When business expenses are paid by credit card the full amount is sometimes claimed under a general heading, for example 'other finance charges', and the individual items are also claimed separately under the appropriate headings, for example travel and subsistence, purchases etc. In these circumstances the expense is incorrectly deducted twice.

Mitigation

Check whether the business has deducted the expenditure under separate headings or in total as the credit card bill. Ensure that the expense is allowed only once as appropriate.

In such circumstances the charges should be included under appropriate individual headings rather than leaving the total as 'other finance charges'.

4. If there has been interest or late payment fees charged on credit cards have these been restricted appropriately?

Risk

When both personal and business expenses are paid by credit card, interest and any late payment fees should be appropriately apportioned between business and personal. Only the business element should be allowed.

Mitigation

If interest or late payment fees are charged on a mixed business/personal credit card bill, adjust the amount claimed in proportion to the business expenditure.

For further guidance see [BIM45650+](#).

5. Has any interest paid on a loan, hire purchase or other finance for a mixed purpose been restricted appropriately?

Risk

Interest and finance charges can be paid by a business for many reasons. If the loan, hire purchase or finance is for a mixed business and personal purpose such as:

- the purchase of business premises with living accommodation
- a loan to purchase a private home used only in part for business purposes
- the purchase of a business vehicle with mixed use only the business element will be allowable.

Mitigation

Establish the nature of any loans, hire purchase or other finance agreements. Check what proportion of the loan etc. was used for allowable business expenditure. Restrict the interest claimed to the appropriate business proportion.

For further guidance see [BIM45650+](#).

6. Have any personal or household bills paid by the business been analysed and allocated appropriately?

Risk

Personal expenses such as household bills, for example utilities, mortgage, insurances etc. may have been paid from the business bank account without an appropriate adjustment to drawings. Payment of such bills without adjustment may result in understatement of the business profit.

Punitive fines incurred, for example as a result of an infraction of the law, including fines for speeding or parking, are not an allowable expense. The cost of fines paid on behalf of an employee, so that the employee is assessable on the payment as employment income, may be allowable.

For further guidance see [BIM42515](#).

Mitigation

Check whether any personal expenses or household bills have been paid through the business account and adjust the drawings accordingly. If the proprietor or partner uses their home for business purposes a proportion of the household bills may be allowable. See [Q7](#).

7. If the proprietor or partner used part of their home for business purposes has the business element been properly identified?

Risk

If the proprietor or partner uses their home for business purposes an element of their household expenses will be allowable, for example utility bills. However if the amount claimed for the business use of their home is excessive - and not in proportion to the actual amount of business use involved - the business profit will be understated.

Mitigation

The amount allowable depends on the particular facts. Where the business use is significant, the claim for relevant household expenses should be apportioned by reference to the amount of time spent and the work completed at the proprietor's or partner's home. Where the business use is minimal a reasonable estimate will generally be acceptable.

For use of home examples see [BIM47825](#).

For 2013-14 onwards, 'simplified expenses' provide an alternative method of working out the allowable expenses to reflect business use of home. This method uses flat rates based on the hours spent working at home each month. See [BIM75010](#) for more details and rates.

Explanation

For a proportion of household expenses to be allowable the part of the home claimed as being used for business purposes must not be used for non-business purposes at the same time. However this does not mean that this part of the home has to be maintained exclusively for business purposes at other times.

Where a claim is appropriate a reasonable proportion of fixed costs such as council tax, general repairs and mortgage interest (not the capital repayments) will normally be allowable. These costs will normally be apportioned by both area and time.

For further guidance see [BIM47800+](#).

Capital expenditure is not normally an allowable business expense, but capital allowances may apply to particular qualifying expenditure. See [Capital Allowances Manual \(CA\) CA20000+](#).

All allowable costs of using the home for business purposes are built into the 'simplified expenses' flat rate allowance. If this method of calculating the expenses is chosen, there is no requirement to keep records of the actual costs incurred or business proportion of those costs. However, an appropriate record of the hours spent working from home should be retained.

For further guidance on 'simplified expenses' for business use of home see [BIM75010](#).

8. Have the profits been adjusted for the cost of any personal clothing paid through the business?

Risk

Ordinary clothing is not an allowable business expense even where the clothing is only worn for business. There are limited circumstances where the cost of clothing is allowed, for example uniforms or protective clothing.

Mitigation

Check whether any clothing was purchased and if it was not specialist clothing, uniforms or protective clothing disallow the costs incurred.

For further guidance see [BIM37910](#).

Travel and subsistence

9. If a business vehicle has been used for non-business travel, including home to work, has only the business travel been claimed?

Risk

If a business vehicle is used by the proprietor or partner for non-business/private travel, which normally includes home to work travel, the full amount of any running costs paid by the business may not be wholly and exclusively for the purposes of the business.

If the costs are not properly apportioned to reflect the business/non-business elements the deduction claimed will be inaccurate.

Mitigation

Ensure there is an adequate record keeping system maintained to establish the proportion of business use each year. Apportion any costs to reflect the business/non-business elements and ensure only the business element is allowed.

For further guidance see [BIM37600+](#).

Capital allowances may also be affected in these circumstances. For further guidance see [CA27005](#).

For 2013-14 onwards, 'simplified expenses' provide an alternative method of working out the allowable expenses to reflect business travel. This method uses flat rates based on business mileage.

The business mileage rate is not available for vehicles on which capital allowances have previously been claimed.

For further guidance see [BIM75005](#).

Explanation

Where there are separate business premises away from the proprietor's or partner's home there is normally little doubt that the journeys to and from home are for the private purpose of commuting. For some types of business, where there are no separate business premises, identifying the purpose(s) of the journeys can be more difficult. In these circumstances consideration needs to be given to the nature of the trade, how the business activities are organised and what purpose(s) the journeys to and from home serve.

For further guidance see [BIM37635](#).

The actual costs of any business journeys (tolls, parking fees etc.) and a proportion of the road tax, insurance (provided the insurance covers business use), repairs, finance costs etc., together with the cost of fuel incurred for the journey will generally be allowable.

From 2013-14 onwards, unincorporated businesses may use a fixed rate per business mile to compute their vehicle expenses under the new 'simplified expenses' rules. They can use this method of relief as an alternative to keeping detailed records of actual expenditure. The mileage rate covers the costs of running and maintaining the vehicle, such as fuel, oil, servicing, repairs, insurance, vehicle excise duty and MOT.

The rate also covers depreciation of the vehicle, so if a business chooses to use the fixed rate, then they cannot claim capital allowances in addition. Once a business has opted to use the business mileage rate for a vehicle, they must continue to use it for as long as that vehicle remains in the business. The business mileage rate is not available for vehicles on which capital allowances have previously been claimed.

For further guidance see [BIM75005](#).

If the vehicle and any related expenses are provided to an employee as part of their remuneration package the costs will be wholly and exclusively for the purposes of the business and therefore allowable in full. This may result in liability to other employment taxes and National Insurance contributions.

For further guidance see [Employment Income Manual \(EIM\) EIM23000+](#).

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10. If a private vehicle has been used for business and non-business travel have only the appropriate costs been claimed?

Risk

If a private vehicle is used by the proprietor or partner for business and non-business travel, the full amount of any running costs, including fuel, insurance, etc. paid by the business may not be wholly and exclusively for the purposes of the trade. If the costs are not properly apportioned to reflect the business/non-business elements the deduction claimed will be inaccurate.

Mitigation

Review any expenses paid for business travel in a private vehicle. Ensure only the business element has been claimed and that there are adequate records kept to identify the business element. Generally a record of the business and/or non-business mileage will be sufficient.

For 2013-14 onwards, 'simplified expenses' provide an alternative method of working out the allowable expenses to reflect business travel.

For further guidance see [BIM75005](#).

The business mileage rate is not available for vehicles on which capital allowances have previously been claimed.

Explanation

Where the proprietor or partner has used their own vehicle for business the costs of the fuel for the business journey(s) are allowed along with a proportion of the other running costs, insurance, road tax etc.

From 2013-14 onwards, unincorporated businesses may use a fixed rate per business mile to compute their vehicle expenses under the new 'simplified expenses' rules. They can use this method of relief as an alternative to keeping detailed records of actual expenditure. The mileage rate covers the costs of running and maintaining the vehicle, such as fuel, oil, servicing, repairs, insurance, vehicle excise duty and MOT.

The rate also covers depreciation of the vehicle, so if a business chooses to use the fixed rate, then they cannot claim capital allowances in addition. Once a business has opted to use the business mileage rate for a vehicle, they must continue to use it for as long as that vehicle remains in the business. The business mileage rate is not available for vehicles on which capital allowances have previously been claimed.

For further guidance see [BIM75005](#).

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11. Are all expenses claimed for business trips wholly and exclusively for business purposes?

Risk

If a trip either within the UK or abroad is for a mixed purpose the whole expense of the trip may not be allowable. For example, where the purpose of the trip is for both business and a holiday

then only those items of expenditure that are solely for the purpose of the business can be deducted.

If the sole purpose of the trip is business, the expense will usually be allowable in full notwithstanding any incidental private benefit.

Mitigation

Consider the purpose of the trip. For example, check whether there was any personal travel included within the business trip or if the proprietor or partner was accompanied by their spouse/partner and/or family. Where the trip was not solely for business purposes ensure the appropriate expenses, for example flights etc., are disallowed.

For further guidance see **BIM37610**.

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12. If a family member accompanied the proprietor or partner on business trips have any associated non-business costs been disallowed?

Risk

If a family member accompanies the proprietor or partner on a business trip the additional costs incurred for their travel are generally non-business and should be disallowed.

When there is a commercial reason for a family member to accompany the proprietor or partner on the trip, for example if they are an employee of the business and would be reasonably required to attend the business event, the cost of their travel will normally be allowed.

Mitigation

Establish the additional costs incurred by or on behalf of the family member(s) for any non-business travel and exclude them from the expenses claimed.

For further guidance see **BIM37610+**.

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13. Are all expenses claimed for meals and subsistence wholly and exclusively for business purposes?

Risk

The cost of food and drink is not generally wholly and exclusively for business purposes and therefore normally not allowable. There is however specific provision at **S57A ITTOIA 2005** that allows modest subsistence costs, if the trade is by its nature itinerant or a journey is undertaken that is outside the normal pattern.

Where the costs incurred are for employees' subsistence these will normally be allowable although employment taxes and National Insurance contributions may be due.

Mitigation

Establish whether any expenses have been claimed for meals or drinks and ensure these are disallowed with the exception of those incurred in the limited circumstances noted below.

For further guidance on employment taxes and National Insurance contributions see **EIM31815**.

Explanation

Extra costs for food and drink may be incurred for business purposes where the nature of the business involves travelling from place to place, for example a travelling salesperson, or where there are occasional business journeys outside the normal pattern.

For further guidance see **BIM37660** and **BIM47705**.

Expenses incurred for entertaining are normally disallowed by **S45 ITTOIA 2005**. For exceptions see **S46 ITTOIA 2005**.

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Entertaining, gifts, subscriptions and sponsorship

14. Have profits been adjusted appropriately for any entertaining expenses paid?

Risk

Entertainment expenses are generally not an allowable deduction even if they are business related. Any other costs associated with entertaining, for example the cost of transport to the venue, such as taxis and mileage, should also be disallowed.

Mitigation

Consider the nature of the entertainment expenditure. Check that there has been an adjustment to disallow the expense and any associated costs appropriately.

For further guidance see **BIM45000+**.

Where there are special offers to the public in the normal course of trade, for example two-for-one meals offered by a restaurant, these will normally be allowable. However when free meals etc. are offered to selected friends or customers, or generally extended to non-paying customers, the cost will not be allowable.

For further guidance see **BIM45030**.

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15. Have profits been adjusted appropriately for business gifts made?

Risk

Gifts are not an allowable deduction, except if they are for advertising purposes (see explanation below).

Mitigation

Establish whether any gifts have been made and ensure that the expenditure is disallowed. Gifts include goods and services supplied at less than cost. In such instances the difference between the cost and the amount received for the goods or services is the non-allowable gift. Even if the recipient of the gift has provided a service to the business, no deduction is allowable unless it can be shown that the business was under some contractual obligation to offer the gift.

Explanation

A gift is usually given to a person without receiving anything in exchange. Gifts are generally voluntary and without expectation of a return.

There are occasions when what appears to be a gift is in fact part of the costs of the sale, for example flowers given to a customer purchasing a car etc. In these circumstances the costs will be allowed. The cost to a business of giving away its own goods or services for the purpose of advertising those goods or services to the public is generally allowable as an advertising cost, for example a sweet manufacturer giving away a sample chocolate bar.

Certain small gifts carrying an obvious advertisement are normally allowed, for example pens or diaries. The conditions for allowing small gifts are:

- The goods are not food, drink or tobacco, vouchers or tokens exchangeable for goods
- The total cost of all gifts given to the one recipient does not exceed £50.

For further guidance see **BIM45065** and **BIM45150+**.

16. Have all gifts, donations or subscriptions to charity been reviewed?

Risk

When the business has made a gift, donation or subscription to a charity other than solely for the purposes of the business the deduction is not allowed. Subscriptions for general charitable purposes, and those to, for example, political parties are usually made wholly or partly for non-business purposes and generally will not be allowable.

Mitigation

Establish the purpose of the payment and, where the purpose is not solely for the business, ensure the payment is disallowed. When payments have been made under Gift Aid the appropriate boxes on the tax return should be completed and the amount charged to drawings.

For further information see [Helpsheet 342](#).

Explanation

The test as to whether any payment is an allowable deduction is at [S34 ITTOIA 2005](#) - was the expenditure laid out wholly and exclusively for the purpose of the trade?

Donations and subscriptions to a registered charity made for the purposes of the business are allowed, for example contributions to the Chartered Accountants Benevolent Association by accountancy firms who employ members of the Institute of Chartered Accountants.

Indications that a donation may not be incurred wholly and exclusively for business purposes might be:

- the voluntary body has no local connection to the business, thus making any quid pro quo for the trader less likely
- a personal connection with the donor
- a lack of publicity surrounding the making of the donation.

For further guidance see [BIM45072](#).

Where the proprietor or partners have a direct business connection with a charity or its objects, a relatively small annual subscription may be allowed, provided that the subscription can reasonably be claimed as an expense incurred in earning profits.

For further guidance see [BIM37510](#) and [BIM47405](#).

17. Have any sponsorship payments made, particularly to connected parties, been reviewed?

Risk

Where the sponsorship is not wholly and exclusively for the business the cost is not allowed. In particular where the sponsored person(s) is a relative or close friend of the proprietor or partner, or where the proprietor or partner has a personal interest in the sponsored activity, there can often be a non-business purpose.

Mitigation

Consider whether the payment is wholly and exclusively for the business. Establish whether the sponsored person or activity has any connection with the proprietor or partner. If it is not clear if the expense is allowable see [BIM42555+](#).

Explanation

Broadly sponsorship costs are allowed except where expenditure is:

- capital
- not wholly and exclusively for business purposes
- specifically disallowed, for example entertaining.

If there is a non-business purpose to the sponsorship (even if there is also a business purpose) no allowance is due. For further guidance on purpose see [BIM42565](#).

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18. If the sponsorship includes hospitality or other benefits have these been dealt with appropriately?

Risk

Sponsorship can often include entitlement to other benefits, for example free tickets, private boxes, dinner dances etc. The cost of sponsorship is not allowable in full if the sponsor receives hospitality or other benefits.

Mitigation

Establish whether the sponsorship includes any hospitality or benefit. Where such hospitality or benefit is received the cost of the sponsorship should normally be restricted by an amount equal to the value of the ticket or other benefits received.

For further guidance see [BIM45055](#).

If there are benefits to any employees as a result of the sponsorship see [EIM21000+](#).

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Drawings and capital account

19. If the proprietor's or partners' drawings have been described as wages or salaries have these been properly allocated to drawings?

Risk

In a sole trade or partnership business, drawings taken by the proprietor or partners are not an allowable business expense even when described as wages or salaries. The same applies for drawings described in other ways, for instance in accordance with any agreement between the proprietor or partners and the business. If the proprietor's or partners' drawings are included with employee costs, the business profit will be understated.

Mitigation

Where amounts have been paid to the proprietor or partners, particularly those described as wages/salaries or first charge/initial share, ensure these are reviewed and allocated to drawings appropriately.

In some cases it may be agreed that the business should pay interest to the proprietor or partners in respect of the balance held on the relevant capital or current accounts. This is also an allocation of profits and should therefore be treated as drawings.

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20. If there have been wages or salaries paid to relatives or connected parties are the amounts paid commensurate with their duties?

Risk

Where there is a non-business purpose to wages or salaries paid, for example to relatives or connected parties or where the level of payment is determined by the relationship, then the part

or proportion of the payment that is not wholly and exclusively for the purposes of the trade is not an allowable deduction.

Mitigation

Establish whether any wages or salaries were paid to relatives or connected parties. Confirm the payments were wholly and exclusively for the purposes of the trade, for example ascertain the work done and reason for the payment.

Consider whether the wages or salaries paid to the individuals exceed a reasonable level of reward for the value of the work undertaken, for example, the commercial rate. Ensure the overall remuneration package including salary, wages, benefits and pension contributions is taken into account when considering whether the amounts were paid wholly and exclusively for the purposes of the trade.

For further guidance see [BIM47105](#), [BIM37735](#) and [BIM37737](#).

Explanation

Where the facts show that a definite part or proportion of the remuneration is not wholly and exclusively for the purposes of the trade only that part is not allowable.

If wages or salaries are not paid within nine months of the end of the period of account they should be disallowed.

For further information see [BIM47130](#) and the [Business Profits Toolkit Q19](#).

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21. If the capital or current account is overdrawn and a loan is funding the proprietor's or partners' drawings, has the interest been restricted appropriately?

Risk

A business may introduce capital funding through bank or other loans, including overdrafts, on which interest is paid. Where the capital or current accounts of the proprietor or partners become overdrawn as a result of the proprietor or partners taking drawings, the loan or overdraft may in fact fund those drawings. In these circumstances the loan interest is not wholly and exclusively for the purposes of the business and therefore, to the extent it is funding the drawings, should be disallowed.

Mitigation

If the proprietor's or partners' capital or current accounts are overdrawn and there is interest paid on borrowings, determine the extent to which the borrowings are funding the drawings. To that extent the interest and any other charges should be disallowed.

Where the current account is overdrawn as a result of the business making losses some or all of the interest may be allowed. See examples involving losses at [BIM45715](#) and [BIM45730](#).

For further guidance on interest payments see [BIM37680](#) and [BIM45705+](#).

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General

22. Have the drawings been adjusted for any trading stock taken for personal use?

Risk

Goods are sometimes taken by a proprietor or partner for their own or their family members' personal use or enjoyment. In these circumstances the goods taken should be dealt with as a sale at market value.

Mitigation

Establish whether the proprietor or partner has taken goods from the business and whether these items have been paid for. If the proprietor or partner did not pay for the goods, the full market value should be added to sales and the same amount added to drawings; if they paid a reduced price for the goods such as cost price, the addition will be the difference between the cost price and market value.

Explanation

Market value may be taken as the lowest price at which the goods are sold in the ordinary course of business.

For further guidance see [BIM33630](#).

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23. Has an appropriate adjustment been made for services provided to the proprietor or partner by the business?

Risk

If the business provides a service to the proprietor or partner any costs incurred in providing that service should generally be disallowed. For example employees of the business may undertake work either for the proprietor or partner personally or other members of their household, for instance, a builder's employees repair the roof of the proprietor's or partner's private house.

In these circumstances the wages, materials and other expenses paid to these employees are not allowable expenses.

Mitigation

Ascertain whether the business provided services to the proprietor or partner or their household and the costs incurred in providing the service. Ensure the costs are disallowed appropriately.

Explanation

The market value principle which applies to goods for personal use (see [Q22](#)) does not apply to services provided to the proprietor, partner or family members. In these circumstances only the costs incurred should be disallowed.

For further guidance see [BIM33630](#).

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24. Are all of the payments made to a registered pension scheme allowable?

Risk

There are occasions when payments which appear to be contributions to pension schemes are made for other reasons such as private medical insurance. Care should be taken to identify amounts, which are not allowable and consider them separately from payments to a pension scheme.

The timing of relief for contributions to registered pension schemes does not follow the accounts, rather contributions are allowed in the accounting period in which they are paid.

Mitigation

Establish the reason for the payment and ensure that all payments are to a registered pension scheme. Ensure that any pension payments are only allowed in the period they are actually paid.

For further guidance see [BIM46000+](#).

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25. Have the profits been adjusted for any professional fees, paid by the business, for personal tax matters?

Risk

Proprietor's and partners' personal tax returns are often closely linked with the business. Only the business element of professional fees is allowable. Professional fees relating to the preparation or computation of personal (non-trade) liabilities are not allowed in computing the business profits, for example the computation of personal capital gains.

In computing the profits assessable, it is practice to allow the normal professional fees incurred in preparing accounts or accounts information and in assisting with the self-assessment of tax liabilities.

Mitigation

When there are personal (non-trade) elements of professional fees identify the business and non-business elements of the professional fees and ensure that only the business element is claimed against taxable profits.

Additional professional fees arising from an HMRC compliance check where this reveals discrepancies and additional liabilities which arise as a result of careless or deliberate behaviour will not be allowable.

For further guidance see [BIM46450](#).

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