

## Being Self-Employed

### Income and expenses—a quick guide

To **get your tax bill right**, you need to know your profit. Your profit is the difference between your business income and your business expenses. You need accurate records so that you can get the figures correct.

### The cash basis of accounting

Special rules apply to the cash basis of accounting which is an **alternative system** that small sole traders and partnerships can use to prepare their business accounts and calculate their taxable profits.

Eligible sole traders and partnerships can elect to use the '**cash basis**' to calculate their taxable trading income. Using the cash basis, you only need to declare money when it comes in and out of your business, rather than using accounting rules which include making year-end adjustments for amounts owed to, and owed by a business at the end of its accounting period. The impact of using cash accounting will depend on your business and the type of expenses you have.

### Income & Expenses

In many small businesses, the boundary line between business and private expenditure can be difficult to find. Wherever possible, **keep business and private expenses separate**. Have a separate business bank account and use it only for business expenses. If you do have expenses which are partly for business and partly for private purposes, then keep a clear record of these transactions.

### Business Income

This is the amount received from your customers for the goods or services that you have sold to them. It includes any amount received for expenses or materials you have invoiced to your customers.

### Business Expenses

This is the money you spend in order to run your business.

The general rule is that as a self-employed person you can deduct from your income expenses which are '**wholly and exclusively incurred**' for the business.

### Wholly & exclusively

Expenses are only deductible if they are incurred "wholly and exclusively" for the purpose of the trade and therefore personal expenses are not allowable.

### Allowable Expenses

You can deduct various business costs to work out your taxable profit as long as they're allowable expenses. These include:

- 🔴 **Admin costs**, e.g. telephone, stationery postage
- 🔴 **Travel costs**, e.g. fuel, parking, train or bus fares\*
- 🔴 **Staff costs**, e.g. salaries or subcontractor costs\*\*
- 🔴 **Things you buy to sell on**, e.g. stock or raw materials
- 🔴 **Financial costs**, e.g. insurance or bank charges
- 🔴 **Costs of your business premises**, e.g. heating, lighting, business rates\*\*\*
- 🔴 **Advertising or marketing**, e.g. website costs

\* Commuting from home to your business premises is not usually a business journey for tax purposes; unless your business base is at home, then you can claim for travel to your customers. If you work from home, but also have other places of business, the situation needs special care. HMRC may not accept that travel from your office at home to another permanent place of business is business travel. If this applies to you, it would be best to take advice.

\*\* Your own tax and National Insurance are NOT business costs and as such are not allowed to be deducted.

\*\*\* The share of your home expenses that will be allowed must reflect an accurate calculation of how much these expenses are incurred for the business as opposed to for your own personal use.

## Private & business use expenses

Some expenses are **dual purpose**, where the business and private element cannot be separated. In this case **none of the expense** can be claimed as business. Examples would be clothing and meals.

The rule is that where an 'identifiable proportion' (e.g. 40%) of the expense is 'wholly and exclusively' for the business, you may claim that proportion as an allowable expense against your business income.

However, if there is no *separately identifiable business element*, you can claim nothing – the whole expense is treated as if it were private expenditure. Only in exceptional circumstances would such expenses be business expenses. For example, specific items of safety clothing may be a business expense; meals taken as part of a business journey away from home are usually allowable.

## Subsistence

The cost of food and drink consumed, and accommodation used is not in general an expense incurred "wholly and exclusively" for the purposes of the trade, since everyone must eat in order to live.

A deduction is, however, allowable for reasonable expenses on food and drink either at a place to which you travel in the course of your trade or while travelling, if certain conditions are satisfied.

If on a business trip you must stay one or more nights away from home, the hotel accommodation and reasonable costs of overnight subsistence are deductible. The reasonable costs of meals taken in conjunction with overnight accommodation are allowable.

## Training

Ongoing, update or development training, once qualified, is an allowable expense. Staff training costs are allowable for staff to **acquire new expertise** or to keep up to date.

## Legal & financial costs

For business purposes **you can claim costs** for the business element of accountancy, solicitors, surveyors' fees and professional indemnity premiums. You cannot claim for fines.

You can claim business costs for bank, overdraft and credit card charges, interest on bank & business loans, HP interest, leasing payments.

## Relief for Capital Expenditure

The cost of large items of equipment, vehicles etc. cannot be deducted from your income as an expense. To cover these, HMRC allow you to deduct what are called "Capital Allowances". Capital Allowances spread the cost of the item over the amount of time that you will use it in your business

## Flat rate expenses

Eligible sole traders and partnerships can also choose to claim a flat rate deduction for business motor expenses and business use of home:

-  **Vehicles** – record your business miles
-  **Working from home** – record the hours you work at home
-  **Living in your business premises** – record how many people live at your business premises over the year

## Pre-trading expenses

If you have expenses in the 7 years before you commenced trading, you may be able to claim these items against your profits. The expenditure is treated as an expense incurred on the 1<sup>st</sup> day of trading.

## Post-trading expenses

You may claim relief for post-cessation expenses paid within 7 years of cessation of the trade.

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*If you would like further information or advice please contact us on:*

*0845 365 1000 or [help@hsj.uk.com](mailto:help@hsj.uk.com)*