

What expenses can I include in my accounts?

A handy guide explaining what expenses you can and can't claim in your accounts.



ADAMS
ACCOUNTANCY

When we say that an expense is an **'allowable expense'**, it means that it will be used to reduce the profit of the business and the business then pays less tax.

So 'allowable' is good for tax and 'disallowed' is not!



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Accommodation

If you need to stay away when on a business trip, the company can pay for accommodation, food and drink. **The trip needs to be 100% business, if you take family or friends with you then it is unlikely that the trip will qualify.**

If you travel to the same place regularly for more than 2 years, the expenditure is not allowable (company can pay but no tax relief will be available).

Accountancy, Legal and Professional Fees

As long as these costs relate to the business and not a director/employee's personal life - buying a house, using a financial advisor to look at personal savings for example - then these expenses are allowable.

Advertising & Marketing

All forms of advertising and marketing expenses can be claimed. This could be brochures, leaflets, social media campaigns, Google AdWords, trade shows, networking events and so on.

Animals

If you are a farmer, you can claim the cost of animals as either stock or a capital asset (if you are using them to breed or if they are a working dog for example). You would be able to claim the initial cost of the animal and also for its care. This could include, food, insurance and vet bills. Unfortunately, household pets are not business related and cannot be claimed for.



Bank Interest and Charges, Credit Card Charges and PayPal Fees

These can only be claimed if the accounts are in the name of the business. If you use your personal accounts for business, you cannot claim the charges and interest, this is one of the reasons we recommend the use of a business bank account.

Bicycles

If you use your own bike for business travel, you can claim 20p per mile travelled.

If using a bicycle is your preferred method of travel, you may want to consider the use of the Cycle to Work scheme. It is also possible for a business to buy a bicycle for the use of its employees (must be available to all employees) and for this to be allowable for tax (lets you have tax relief without the employee being charged).

Broadband

If you have a separate broadband contract, the whole cost will be allowable. If you are using home broadband then you will need to decide on an appropriate percentage for business use and this can be claimed instead.

Business Use of Home

This can either be claimed as a flat rate or in proportion to the area used in your home for business reasons. The calculation involves adding up costs such as rent, mortgage payments, insurance, gas, electric, water and council tax. The total is then apportioned using the area used for business and the time that this area is in use. It can be a complex calculation and many business owners opt to use the flat rate cost.



Charitable Donations

The donation needs to be made from the company (rather than personally) to be allowable for tax.

Childcare

Childcare is no longer allowable as a business expense. Instead, an employee/business owner can obtain tax relief personally through the Tax-Free Childcare Scheme.



Christmas Party

You can spend £150 annually per employee which also includes directors. It doesn't have to be one event, you could have one in the summer and one in the winter and as long as the total is under £150 a head, it's allowable.

The events must be open to all employees and are not open to clients or associates as client entertaining is not allowable.

It should also be noted that the £150 limit includes VAT and that as soon as you exceed £150, the entire cost is disallowed (not just the bit over £150).

Clothing & Uniform

This is one of the most common expense related questions we receive – yes, you do need to dress to go to work but the expense is not allowable unless the clothing is protective – hard hats, steel toe-capped boots, high-vis jackets etc. – or is uniform and this usually means that the clothing displays a logo.



Company Cars

This subject is one best discussed when you/an employee needs a new car as the rules are complex. In very simple terms, you can buy or lease a car but it may cost the company National Insurance and cost the employee/director tax (the provision of the car is a benefit in kind and is taxed as income). You have lots of options and so getting in touch with your accountant before you sign on the dotted line is highly recommended.

Computer Equipment, Consumables and Software

Computer equipment is treated as an asset and you **will receive tax relief in the form of capital allowances**. Computer equipment would cover the purchase of most items that you intend to use in the business over a number of years, such as a PC or laptop.

Computer consumables are allowable expenses to the extent that they are business related. Part of the cost would be disallowed if there is also personal use. Computer consumables are things like USB cables, software subscriptions, software licenses and small items like a keyboard and mouse.

Cost of Sales

Very simply, this is the cost of anything that you buy in to make into something else or to re-sell at a markup, the cost of your stock.

If you are a service provider, we would expect your cost of sales to be largely labour based, labour costs are of course allowable.



Directors Wages

If you pay yourself a salary, the company will get tax relief on this. Be careful here, making a payment from your bank account and calling it 'wages' isn't enough. **You need to operate a payroll scheme and report the payments and any tax deductions to HMRC (we can do this for you).**

A director can be paid using salary or dividend or a combination of both. What is best for you may not be best for another company and so you will need advice that is tailored to your personal circumstances. We can make sure that between Corporation Tax and Personal Tax, you pay the least amount possible – we offer this advice as standard to all of our Limited Company clients.

Dividends

As described above, **a director can be paid using dividends** (as long as they own shares). Dividends are not an allowable expense and are paid from profit after the tax has been paid.



Entertaining

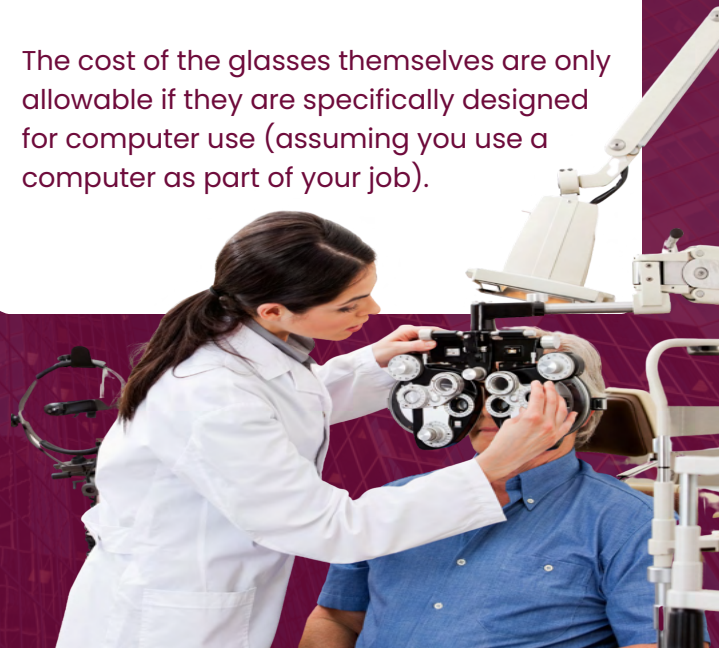
Entertaining employees – this is allowable for tax relief but is subject to the £150 per year rules discussed in the 'Christmas Party' section.

Entertaining clients – while the company can pay for client entertainment, the cost will not receive any tax relief.

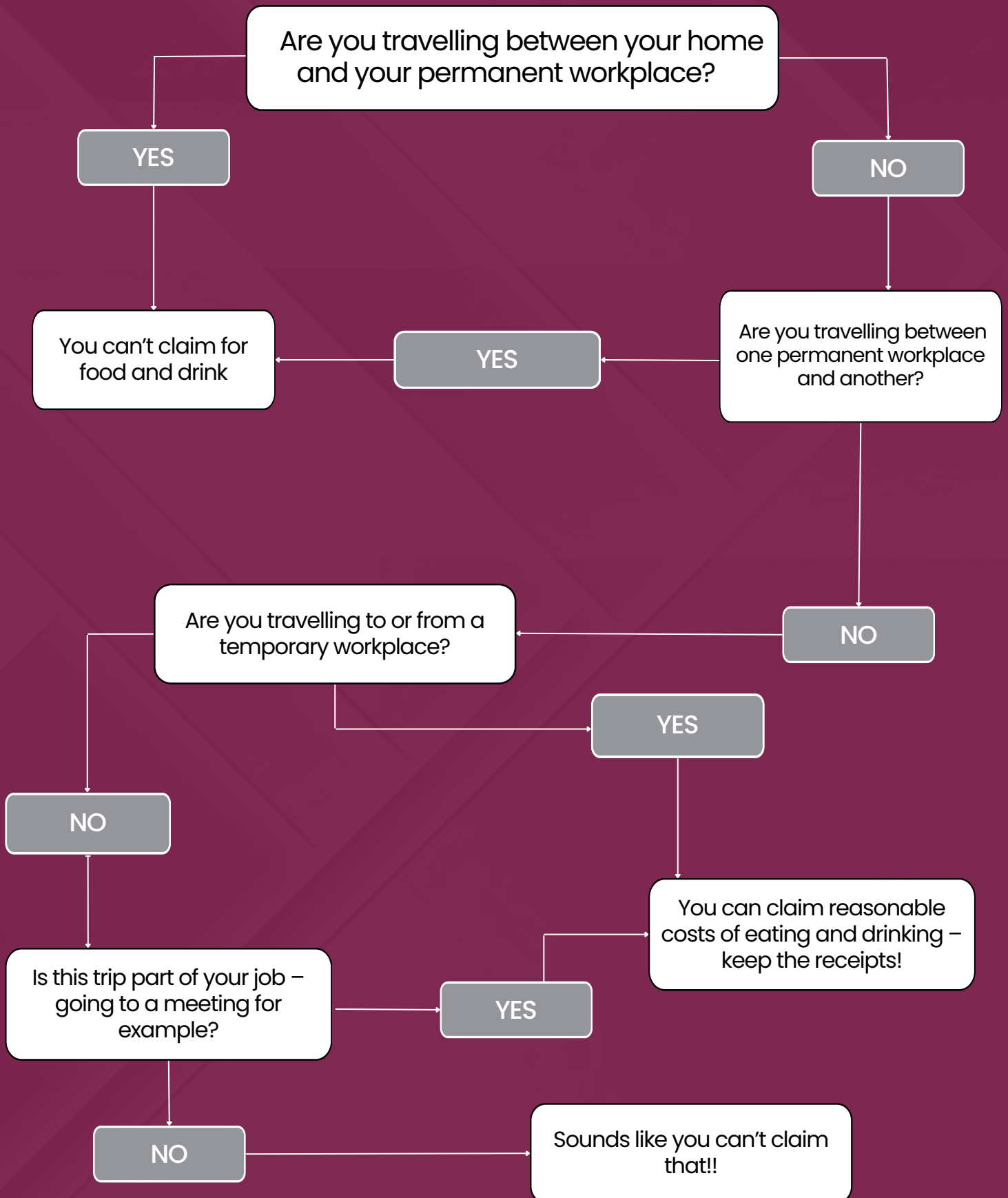
Eye Tests

A business can cover the cost of an eye test for its employees and this is allowable for tax.

The cost of the glasses themselves are only allowable if they are specifically designed for computer use (assuming you use a computer as part of your job).



Food & Drink



Furniture

Furniture is generally an asset and will be given tax relief through capital allowances. It covers things like desks and chairs but the assets must be used solely for business purposes. This means that when you work at home, you wouldn't be able to claim for sofas, dining tables and chairs.

Gifts

Gifts to employees – small gifts (less than £50 including VAT) can be claimed. The gift cannot be cash or a voucher than can be exchanged for cash. The gift cannot be given in recognition of services provided as part of their employment duties and they cannot be entitled to the gift in their contract. If you spend over £50, the whole £50 is disallowed, not just the bit over £50.

Gifts to directors – as above but the total cost of gifts is limited to £300 per year.

Gifts to anyone else – the gift must be marked with the business logo and cannot be food, drink, tobacco or exchangeable for cash. Gifts are subject to a £50 per recipient limit.



Insurance

Policies that are solely business related can be claimed. This also includes providing employees with medical insurance although it should be noted that the employee/director will pay tax as if they had received the cash equivalent (benefit in kind rules).

Irrecoverable (Bad) Debts

If the worst happens and you will not receive payment for a service you have provided or goods that you have sold, you can claim the cost as a bad debt. This essentially means that you do not pay tax on the income – it's as if the sale had not happened. The cost to you (stock, materials or labour) will still be allowable as normal.

Life Insurance

This is allowable as long as the policy is a 'Relevant Life Policy'. You might need a financial advisor to help you here as sometimes insurance is sold as being allowable for tax when in fact, it is not Relevant Life Insurance.

Loan Interest

If the loan is in the business name and is used for business purposes then the interest is an allowable cost for the business. It's important to note that it's just the interest that is an expense and not the repayment of the loan balance itself.

Medical Expenses

General medical costs are not a business expense. An exception to this rule would be if you injure yourself at work. The cost of treatment must be paid directly to the healthcare provider.

Mileage

You can claim mileage to cover the cost of business miles travelled in an employee/director's own vehicle. Here is a table of the current rates.

EMPLOYEES OWN CAR OR VAN 2022 - 23	
Up to 10,000 business miles	45p per mile
Over 10,000 business miles	25p per mile
Each passenger making the same trip	5p per mile
Motorcycles	24p per mile
Cycles	20p per mile

Office Costs

If you work from an office, you can claim the cost of all utilities, cleaning and business rates.

Parking Fines & Speeding Tickets

These are not allowable expenses even when incurred on a business journey. Fines for non-payment of tolls (such as Dart Charge) and associated admin charges are also not allowed. The company is able to pay for these costs but they will not receive any tax relief.

PAYE and National Insurance

PAYE and National Insurance are both allowable expenses as they form part of your labour costs. The true cost to the business is the employee's salary before tax and NI. A business also pays Employer's NI and these contributions are also allowable.

Pension Contributions & Pension Advice

- **Workplace pensions** – the company's contributions to its employee's workplace pension scheme are an allowable expense of the company.
- **Private pension contributions** – These are made outside of the payroll scheme and payments are made directly to the pension scheme. The contributions are allowable expenses although directors should check beforehand as there is a limit to how much they can contribute in one year before they pay tax.

Postage and Courier Costs

The costs of postage and delivering goods to customers are all allowable.



P

Pre-Trade Expenses

You can claim the costs of setting up your business before you start to trade. These are claimed in your first accounting period and tax return.

Professional Subscriptions

HMRC has a list of approved professional bodies but in practice, most professional subscriptions are allowable.

S

Sponsorship

Sponsorship is allowable as long as it is made on a commercial basis. This means that sponsorship related to friends and family is often disallowed.

There must also be no personal benefit of the directors – if they get free tickets to events for instance, there will be no tax relief for the company.

Stationery

All stationery is an allowable cost to the business. It covers pens, paper, printing and so on.



T

Telephone and Mobile Phones

Where the contract is a business contract, the whole cost of the contract can be claimed. When you are using a personal mobile contract or home landline, only the business percentage will be allowable.

It's worth noting that the business can supply its employees with a mobile phone tax free – the company will save tax and the employee doesn't pay any tax on the cost of the mobile.



T

Training and Personal Development

The training must be 'wholly and exclusively' for the purpose of the company's business and can be made available to all employees. There are some cases where training will be self-improvement and not an allowable expense and so this is one to be checked before the money is spent.

Travel

The cost of business travel is allowable for tax. If there is a personal element in the total, it must be easily separated and the business element only claimed. Travel can include, flights, trains, tolls and parking. Accommodation is covered above.

V

Vehicles

By 'vehicles' we mean commercial vehicles such as vans. Company cars are covered above. Vehicles are assets of the company rather than expenses but the tax treatment means that you will usually get full tax relief in the year you buy the vehicle. If the vehicle is leased, tax relief is given for the lease payments made during the accounting period.

W

Website Costs

The initial build costs for your website are allowable for tax. All other costs such as hosting, domain fees and SEO support are allowable for tax.



There will always be something that doesn't quite fit in any of the categories above – we are amazed at some of the weird and wonderful expenses our business clients have. If you are unsure, get in touch!

No silly questions, remember.

✉ info@adams-accountancy.co.uk

☎ 01322 250 001

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JAMES WEBB

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