

Business expenses: Understanding allowable costs



Introduction

Navigating business expenses effectively is crucial for minimising tax liability and enhancing profitability. This factsheet offers detailed insights into allowable business expenses, how to claim them, and strategies for maximising their tax effectiveness.

What are business expenses?

Business expenses are costs incurred in the operation of your business that are wholly, exclusively, and necessarily for business purposes. These expenses can be deducted from your income to reduce your taxable profit.

Common Allowable Business Expenses

Multiple allowances are available, such as the use of home allowance and sundry gift allowance. Use them or lose them!

- Office Costs
- Rent, utilities, insurance, stationery, and software subscriptions.
- Home office costs, calculated using a fair and consistent method based on the proportion of home used for business.
- Travel Expenses
- Mileage, parking fees, public transport fares, and necessary accommodation for business travel.
- Staff Costs
- Salaries, bonuses, agency fees, pensions, and employer's National Insurance contributions.
- Professional Services
- Fees for legal, financial, or consulting services directly related to business operations.



Special allowances for directors and employees

There are a range of special allowances that directors and employees can take advantage of. Examples of these are:

Use of Home as Office

Directors and employees can claim a flat rate deduction for business use of their home or calculate the actual costs based on the area used for work purposes.

Health and Safety Expenses

Cost of annual sight tests and necessary eyewear if the use of a computer screen is part of the job. Health checks and other safety-related expenditures that are necessary under health and safety legislation.

Trivial Benefits

Non-cash gifts to employees costing £50 or less, such as birthday gifts, are exempt from tax as trivial benefits provided they don't exceed the annual limit and aren't part of the contract or a reward for performance. This allowance can be £300 for directors of some qualifying companies.

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Non-Deductible Expenses

Client Entertainment

While the company can cover the costs of entertaining clients, such expenses are not deductible for tax purposes. This includes costs associated with meals, events, or entertainment related to client relationships.

Capital Expenditure

Most capital expenses, like purchasing equipment or vehicles, are not immediately deductible as an expense but may qualify for capital allowances (and therefore still qualify as a Corporation Tax deduction) instead.

Personal expenses

Costs not incurred wholly and exclusively for the business are not normally allowable for tax purposes. Over the years case law and HMRC regulations have tightened up the regulations in this area, and there are many items which might intuitively seem allowable, but are in fact not (for example work clothes, apart from very exceptional items).

Conclusion

Effectively managing and strategically planning business expenses can significantly impact your tax position and overall business success. We help our clients ensure compliance and take full advantage of available deductions and allowances.

Contact us at hello@parryandparry.co.uk to discuss how we can help you.