

QACCOUNTING

— Self Employed Expenses Guide

Introduction

When you are self-employed you can reduce the amount of income which is subject to tax by subtracting expenses which HMRC have classified as “allowable expenses” by including the total of these in your annual Personal Tax Return. This guide helps to explain which expenses are “allowable” and is based on the guidance provided by HMRC here (<https://www.gov.uk/expenses-if-youre-self-employed>).

The rule for claiming allowable expenses is that they must be “wholly and exclusively” incurred in the performance of your business.

Therefore, if an expense has duality of purpose (i.e. it is used for both personal and business purposes) then these expenses are NOT allowable (e.g. everyday clothing worn at work). However, where the business and personal usage can be separately and reliably measured then you are able to claim for the business part of these expenses.

Retaining evidence in respect of expenses you have claimed is crucial. HMRC don't ask you to provide proof of expenses when you submit your tax return each year, but they do occasionally perform spot checks. And they may therefore approach you in the future and ask you to provide evidence to verify the expenses you have claimed. So, it's important you keep all original receipts for any expenses claimed for a period of at least 6 years

Basis of Accounting

We use the ACCRUALS basis of accounting which means that we account for income which has been earned and expenditure which has been incurred when it is DUE. HMRC also allow the CASH basis of accounting which accounts for income and expenditure when it is PAID.

While the Cash basis is often easier to understand the Accruals, basis is often preferable from a cash flow perspective as income is often received in arrears. Furthermore, the Accruals basis is often preferable for those clients who invest in property as using the Cash basis can impose additional restrictions to the amount of interest relief that is allowable.

Trading Allowance

If you are self-employed or have a property business then there is a tax exemption of up to £1000 per tax year available for each of: your total income from your trading businesses, and your total income from your property businesses.

Where you earn less than £1000 in either case no tax is payable, and where you earn more than £1000 you have the option to subtract: EITHER the £1000 allowance OR the allowable expenses. It is therefore normally beneficial to use the allowance when your total expenses are less than £1000 and actual allowable expenses when the value is higher.

The allowance is not available where income from a trade or property is received by you (or someone you are connected to such as your spouse) from a company or partnership you control, or from employment. The allowance is also not available where the property income is generated from letting a room in your own home (under the Rent-A-Room scheme).

Capital Expenditure

Where you incur expenditure of a capital nature, for instance by buying: office equipment (such as computers), plant and machinery for use in the business, or vehicles (such as a car or van) then this expenditure is not ALL allowable in the year of purchase, but must instead be spread over the life of the asset. The amount which is allowable each year is called a “Capital Allowance”, and like other allowable expenses reduces the amount of income subject to tax.

Allowable Expenses

HMRC have classified the following categories of expenditure as “allowable expenses”:

Office Property & Equipment Expenses

All office related costs incurred for business purposes such as Rent, Rates, Utilities, Insurance, Security, Stationery, Postage, IT Service and other ancillary running costs are generally allowable providing (per above) they are not capital in nature.

Car, Van & Travel Expenses

With vehicles you have the option of using: EITHER the “Simplified Expenses” process OR claiming actual vehicle expenses.

Under the Simplified Expenses process which can be used for cars, good vehicles (e.g. vans), or motorcycles, you need to keep a record of all business-related mileage and then apply the following flat rates to determine the total allowable expenditure:

- Cars and goods vehicles up to 10,000 miles – Claim 45p per business mile
- Cars and goods vehicles over 10,000 miles – Claim 25p per business mile
- Motorcycles – Claim 24p per business mile

This flat rate is used instead of keeping a record of all actual vehicle costs and splitting these into business and personal amounts. Note – Once you opt to use the Simplified Expenses option for a vehicle, you must continue to use this method for that vehicle and cannot therefore use actual expenses in the future.

Alternatively, you can instead choose to use the actual expenses incurred for a vehicle including for instance: Fuel, Repairs, Insurance, Tax, Breakdown Cover, and Hire Charges, splitting these into business and personal amounts.

Irrespective of which method is chosen you can continue to claim the actual cost of other travel related business costs such as parking, train, air fares, taxis, etc, with the exception of fines/penalties (e.g. parking and speeding) and travel between home and place of work which are NOT allowable.

You can also claim for all business-related accommodation and meal costs.

Working from Home Expenses

Providing that you work from home for at least 25 hours each month, then similar to vehicles you have the option of using: EITHER the “Simplified Expenses” process OR claiming actual home utility bill expenses.

Under the Simplified Expenses process the amount you can claim each month depends on the number of hours you work from home, applying the following flat rates to determine the total allowable expenditure:

- 25 to 50 hours working from home – Claim £10 per month
- 51 to 100 hours working from home – Claim £18 per month
- 101 or more hours working from home – Claim £26 per month

This flat rate is used instead of keeping a record of all actual home utility bills and apportioning these into business and personal amounts.

Alternatively, you can instead choose to use the actual home utility bills (Heating, Electricity, Council Tax, Telephone, Internet, and Mortgage Interest) and then apportion these into business and personal amounts using a reasonable basis. For instance, if there are 5 rooms in the house and one is used for business

purposes on Monday to Friday then appropriation the total of all bills as follows: Business Portion = (Total Utility Bills * 1/5) * 5/7).

Living at Business Premises Expenses

Instead of working at home, certain types of businesses such as hotels, guest houses, care homes, etc. require the owner to live on the business premises. And reflective of the fact that these premises are used primarily for business then a different Simplified Expenses process is applied.

In these instances, the calculations are performed in reverse. Instead of calculating the amount of business use which is allowable, you calculate the amount of personal use which is NOT allowable and subtract this from the total value of bills.

Under the Simplified Expenses process the amount which is NOT allowable depends on the number of people who live at the business premises as follows:

- 1 person lives at the business premises – £350 per month is NOT allowable
- 2 people live at the business premises – £500 per month is NOT allowable
- 3 or more people live at the business premises – £650 per month is NOT allowable

So, if the monthly bills total £2,000 and the owner and his wife live at the premises, then £1500 is an allowable expense each month. The non-allowable amount can be reduced for periods when the premises are not occupied.

Similar to working from home you can also alternatively choose to use the actual premises utility bills (Heating, Electricity, Council Tax, Telephone, Internet, and Mortgage Interest) and then apportion these into business and personal amounts using a reasonable basis.

Clothing Expenses

In the majority of cases the cost of clothing is NOT allowable as there is duality of purpose and the business and personal usage cannot be separately measured. However, where clothes are purely business related such as the cost of uniforms, additional protective clothing, or costumers (e.g. for Actors) then this is allowable.

Staff Expenses

If you employ staff or sub-contractors in your business then these costs will be allowable.

This includes for instance: Salary, Bonus, Pension, Non-Cash Benefits, Employers National Insurance, and Agency Fees for these staff.

Note however that costs in respect of home help such as nannies and healthcare workers are NOT allowable.

Reselling Goods Expenses

Any raw materials used in the business or costs incurred to produce products for sale are allowable.

Legal and Financial Expenses

With the exception of fees incurred for the purchase of capital items such as Fixed Assets and Property, all Legal and Professional fees and Accountancy fees incurred for the purposes of your business are allowable.

Likewise, all costs in respect of Insurance Policies, Bank Charges, and the interest element of Finance Charges are allowable.

Furthermore, in the unfortunate event that one of your customers is unable to pay you (referred to as a Bad Debt) then you are allowed to deduct this value, as otherwise you would have to pay taxes on income you will never receive!

Marketing, Entertainment, & Subscription Expenses

HMRC do NOT allow costs in respect of the entertainment or hospitality of prospective or existing customers.

But all other advertising and marketing costs to promote the business and the associated products and services are allowable.

Subscription costs relevant to your trade such as membership fees to trade and professional bodies are also allowable.

Note however that subscriptions for gyms, social and health clubs, and political parties are NOT allowable as there is duality of purpose and the business and personal usage cannot be separately measured.

Training Expenses

All training costs including materials and course fees are allowable providing that they support your existing trade or business.

Training costs which do not support your existing business or which relate to NEW types of business are classed as personal expenses and are NOT allowable.

How To Submit Invoices and Expenses

There are different applications which can be used to submit invoices and expenses which integrate directly with Xero. We recommend the use of Hubdoc for all but our larger SME clients because the application is owned by Xero and unlike Xero's own product offering it is subscription free for many Xero subscriptions and can therefore be used by many of our clients at no additional cost. Xero's own subscription service is useful for larger SMEs who have multiple employees who require expenses to be managed separately and is charged at £2.50 per user per month plus VAT.

Clients who have Xero Ledger subscriptions (i.e. Dormant status clients and Ad-hoc status clients for which we provide a year-end accounts and tax return only service) will not have access to Hubdoc. But all Xero Starter, Standard, Premium, Bureau, and Bureau Premium subscriptions (i.e. Active / Inactive status clients) will have access to Hubdoc at no additional cost as part of their Xero subscription.

High level guidance about Hubdoc and links for downloading the associated App (optional) is published here: <https://www.xero.com/uk/features-and-tools/accounting-software/hubdoc>

Invoices and expenses can be submitted by clients to Hubdoc via a few different methods:

- Email – Each client receives a Hubdoc submission email address specific to their client company. Please let your client manager know if you need another copy of this?
- Upload – Logging into Hubdoc directly (from the menu in Xero) for your client company will allow you to drag and drop files from your PC directly into Hubdoc.
- Hubdoc Mobile App – The app (available free via the App store for your phone) allows you to photograph and submit receipts using your smartphone.
- Auto-fetch – Where bills are routinely received from the same Plc supplier (i.e. such a Bank or Utility Company) then Hubdoc supports linking to this supplier directly so that new bills are automatically uploaded to Hubdoc when they are issued.

Hubdoc is therefore a document exchange portal which gives clients the flexibility to submit documents in different ways so that our staff can process these for you. **PLEASE DO NOT PROCESS TRANSACTIONS WITHIN HUBDOC.**

On the receipt of sales invoices, purchase invoices, receipts, or expense claims into Hubdoc **OUR STAFF WILL THEN PROCESS THESE FOR YOU.** Mileage claim forms can also be submitted via Hubdoc. We have created a simplified template for expenses and mileage claims which has been saved to the Portal (Menu/Templates Factsheets/Templates-Xero Expense Claim Upload Template).

While not mandatory, in order to help us to ensure that we process documents that you submit into Hubdoc correctly we recommend creating the following “Tags” within your Hubdoc account and using these to classify transactions:

- Business (Not Yet Paid) – Business expenditure which has not yet been paid.
- Business (Paid by Company) – Business expenditure paid for using the Company Bank Account.
- Business (Paid Personally) – Business expenditure paid for using a Personal Bank Account.
- Emp Expenses (Paid by Company) – Employee expenses paid for using the Company Bank Account.
- Emp Expenses (Paid Personally) – Employee expenses paid for using a Personal Bank Account
- Invoice – Submission of sales invoices

Please note

With the exception of Timesheets / Rechargeable Expenses the use of Hubdoc and Xero Expenses will REPLACE THE FORMER PROCESS where invoices and expenses were submitted to: timeandexpense@qaccounting.com, or via the QA Expenses App / Client Portal. PLEASE DO NOT SUBMIT INVOICES / EXPENSES TO BOTH HUBDOC AND THE FORMER METHODS AS THIS WILL CREATE A RISK OF DUPLICATION. If you have any further queries, please contact us & we will be happy to help you.

How to Submit Timesheets and Rechargeable Expenses

Where you have subscribed to our invoicing or rechargeable expenses process please continue to submit timesheets and / or rechargeable expenses to timeandexpense@qaccounting.com in line with the legacy process. If you have any further queries, please contact us & we will be happy to help you.

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0116 243 7867 • enquiries@qaccounting.com • www.qaccounting.com

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OR

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If you found this guide useful and know someone else who may need an accountant then please let us know by providing a referral HERE: <https://www.qaccounting.com/refer-a-friend/>.

If you have any further queries, please contact us and we will be happy to help you.

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