



**UNDERSTANDING
ALLOWABLE
BUSINESS EXPENSES:
A ROADMAP TO
TAX SAVINGS**



FEEL CONFIDENT AND SAFE WITH YOUR TAX-DEDUCTIBLE EXPENSES.

As the owner of a growing limited company, every tax-deductible expense adds up to significantly reduce your tax bill. But which costs actually fall into that category?

Whether you're expensing travel, software subscriptions or company phones, it's crucial you're aware of what HMRC classifies as a business expense to avoid any sticky legal areas.

In this guide we'll look at different categories of allowable expenses, so you feel confident you're claiming as much as you can while safeguarding against non-compliance.



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WHAT ARE TAX-DEDUCTIBLE EXPENSES?

UK tax law allows for certain expenses to be claimed as a deduction against business income.

The folks over at HMRC use the term “tax-deductible” or “allowable for tax” to refer to expenses your business can deduct from your taxable income when working out your tax liability.

Once these expenses are deducted, the taxable profit is reduced so your business pays a lower tax bill.

HOW CAN I TELL WHICH EXPENSES ARE TAX-DEDUCTIBLE?

Unsure whether something can be categorised as a business expense?

Follow the “wholly and exclusively” rule.

HMRC uses it as a clear-cut way to determine business expenses:

In order to qualify for tax relief, the expenses you incur must be wholly and exclusively for your business and must be necessary for its operations.

In other words, if the purchase isn't directly related to your business activities and incurs a personal benefit, it can't be classed as a tax-deductible expense.

If you always stick to this rule, you can be confident you're accurately accounting for valid business expenses.

DNA ACCOUNTING TIP:

When it comes to employee expenses, the rules are a bit stricter. They must be incurred wholly, exclusively and necessarily for the performance of duties, but it's not always so straightforward. We recommend seeking advice from your accountant for these expenses.

EXAMPLES OF ALLOWABLE BUSINESS EXPENSES

Let's dive into some common tax-deductible business expenses. The following are generally allowable when you follow the "wholly and exclusively" rule.

TRAVEL AND ACCOMMODATION



ACCOMMODATION

This includes hotel and rental costs necessary for the performance of duties while staying away from home. Accommodation associated with a temporary workspace may be claimed as long as the contract is no longer than 24 months.



AIR FARES

Air fares don't incur VAT, but if you're recharging the expense to your client and you're registered for VAT, you must also charge VAT to your client.



BICYCLES

Tax deduction may be claimed under HMRC's approved mileage allowance payments at 20p per mile. This can be done under the HMRC cycle-to-work scheme, or through capital allowances where your business purchases the bike.



INCIDENTAL OVERNIGHT EXPENSES

If an employee works away from home, a small amount can be claimed to cover incidental costs like phone calls and laundry. The claimable fixed sum is £5 per night for UK overnight stays, and £10 for working overseas.





MILEAGE

HMRC's approved mileage allowance payments are 45p for a car or van for the first 10,000 miles, reducing to 25p afterwards in the same tax year. Mileage for all miles on motorcycles is a fixed rate of 24p, and 20p for bicycles.

If an employee claims approved mileage for using their own vehicle and they carry additional passengers for business journeys, each extra person in the vehicle can claim 5p per mile.



TAXI FARES

Trips for business purposes are tax-deductible.



TRAVEL

All regular travel for business purposes is generally an allowable expense. First class or lavish travel may be disallowed if it's deemed to be a reward rather than necessary for the business. Travel between home and regular place of work can't be claimed.



SUBSISTENCE

May be claimed when on a business journey or on assignment temporarily working away from the usual permanent place of work, i.e. a contractor. These costs stop being tax-deductible when it's known the length of the contract will exceed 24 months.

DNA ACCOUNTING TIP:

For one-person limited companies, we advise claiming the actual receipted cost of the meal, rather than the round sum allowance.

SERVICE AND LEGAL FEES



ACCOUNTING FEES

This includes fees from the first advice given before you start. Note there are exceptions here, including fees which arise from an HMRC enquiry. If you're a director, you can't claim any fees relating to the completion of your income tax self-assessment. This needs to be paid separately, otherwise it's subject to a benefit-in-kind charge if paid by your business.



PROFESSIONAL FEES

As long as these are wholly incurred by your business, these are claimable.



LEGAL COSTS

As long as these costs aren't incurred for fraud, fines, illegal actions or related to capital items, these are allowable.



PATENT COSTS

Regardless of whether the patent is granted or not, these costs are generally claimable.

ADMIN AND UPKEEP COSTS



POSTAGE

Royal Mail is exempt from VAT, but if you use a private postage company you may be able to claim any VAT they charge.



PRINTING

This is an allowable expense.



REPAIRS

Routine maintenance and repairs of assets are tax-deductible. If you're looking to acquire an asset that needs repairing to make it fit for use, this counts as part of the cost for the asset and isn't a claimable expense.

DNA ACCOUNTING TIP:

You may be able to claim the cost of pre-acquisition repairs under capital allowances.



EYE TEST

If an employee needs glasses solely for use while using the computer for business purposes, there is no benefit-in-kind charge and the company can claim for such expenses against corporation tax.

MEDICAL COSTS



MEDICAL INSURANCE

Annual medical checkups provided to employees are tax-deductible and don't incur any benefit-in-kind charge. If you pay for your employees' medical insurance, this is also claimable but a benefit-in-kind charge does apply.



MEDICAL TREATMENT

This is an allowable expense that doesn't incur a benefit-in-kind charge, so long as your employee incurs the treatment directly associated with injuries or diseases related to work and is paid directly to the supplier by the employer.

DNA ACCOUNTING TIP:

If your employee is working abroad, the cost of the insurance to cover treatment is allowable and doesn't incur a benefit-in-kind charge.

OFFICE EXPENSES



BOOKS AND MAGAZINES

If the book or magazine is relevant to your business, the expense is tax-deductible. If there's any element of self-interest, it would be classed as a benefit-in-kind and not tax-deductible.



BROADBAND

If your wifi contract is between the broadband supplier and your business, the expense is claimable. If your internet connection is already set up in your house and you work from home, there isn't an additional cost so it's not an allowable expense.



COMPUTER EQUIPMENT

Tax relief by means of capital allowances can be claimed here.





CLOTHING

This is only tax-deductible if the clothing is a specific uniform. It must either have your business branding or be required for health and safety.



MOBILE PHONES

As long as the device is solely for use by your company's employees (not their family), this is an allowable expense with no benefit-in-kind charge. A phone that's already owned and in the name of your employee can't be wholly claimed; only the cost of business calls where they've been separately identified. Any business calls claimed as part of a personal, unlimited minutes bundle will incur a benefit-in-kind charge.



SOFTWARE

Any software with a life expectancy under two years is tax-deductible. If it exceeds two years, it should be treated as capital expenditure and recorded on the balance sheet as an asset. This will mean depreciation is charged and capital allowances can be claimed.



OFFICE RENTAL

This is a tax-deductible expense, including when business rates are charged.

DNA ACCOUNTING TIP:

"Virtual" office rental costs for your business can also be claimed.



STATIONERY

Office stationery is able to be claimed as a business expense.



LANDLINE PHONE

A landline billed to the business is allowable, but if a home landline is used for business calls then you can claim these call costs.



GIFTS AND PARTIES



CORPORATE BUSINESS GIFTS

If you give a gift which has a business element, like a mug with your branding on, this is an allowable expense. If you give a general gift with no branding or advertising element, this is treated as entertainment.

Output VAT isn't chargeable on business gifts as long as the cost is no more than £50 per person in a 12-month period, and input VAT can be claimed. Keep in mind that gifts of alcohol, tobacco and food aren't tax deductible.



CHRISTMAS GIFTS

A gift of up to £50 in a 12-month period can be claimed (as long as it isn't alcohol, tobacco or food). However, any gifts exceeding £50 are taxable on the employee. For this relief to apply you must have at least two employees.



OFFICE/CHRISTMAS PARTIES

These are allowable expenses, as long as the event is open to all employees, the value-per-guest doesn't exceed £150 and they take place annually.

SALARIES AND TRAINING



SALARIES AND WAGES

These are tax-deductible.



DIRECTOR'S SALARY

The director should be given at least a minimum salary, which can be claimed against tax. The UK's minimum wage regulations don't apply here unless there's a binding contract of employment.



TRAINING

Training costs to develop existing skills can be claimed, but training for new skills which aren't relevant to your business services are not. This is because they can't usually be shown as being incurred in the performance of duties, so they're categorised as a capital cost.



PENSION CONTRIBUTIONS

Contributions made by your business to an executive pension scheme are allowable for directors and employees.



NATIONAL INSURANCE CONTRIBUTIONS (NIC)

Employee NICs are paid by the employee from their gross salary. Employer NICs are paid by the employer on top of their gross salary and are tax-deductible, similar to class 1a NICs paid on benefits-in-kind.

DNA ACCOUNTING TIP:

After you bring on your first employee, you'll be able to claim an initial Employers' Allowance.

BANKING AND INSURANCE



BANK CHARGES

Note that charges on unauthorised overdrafts are not allowable, including reimbursing charges to an employee which may incur a benefit-in-kind to the employee.



BAD DEBT

This is where it hasn't been paid for 6 months and isn't a general provision. If you're not on cash accounting, the VAT charged on the bad debt can be reclaimed as long as you've followed all reasonable steps to recover the debt.



INTEREST ON LOANS

Interest charged on business loans or other finance payments on your company credit card or company overdraft is claimable, as is any interest on late payments of tax. However, interest on personal loans and credit cards is not tax-deductible.



KEY MAN LIFE INSURANCE

This policy benefits the business should there be a sudden loss of the key executive in the company, covering the cost of employing another key person or implementing strategies to save the business. The cost can be claimed against business tax and doesn't incur a benefit-in-kind charge.



INSURANCE

The following insurances can be claimed as a business expense: Public Liability, Tax Investigation, Office Contents, Jury Service, Key Man, and Motor Insurance for business-owned vehicles. If your business has employees other than the director/shareholder, you're legally required to carry Employers' Liability. Professional Indemnity has to be in place if it's specified in your client's contract.

DNA ACCOUNTING TIP:

Other insurances like Executive Income Protection and Health Insurance can be claimed, but may incur a benefit-in-kind charge.

VEHICLE AND LEASE COSTS



HIRE AND RENTAL

As long as the equipment is solely for business use (i.e. a printer), the hire cost is tax-deductible.



HIRE PURCHASE

If you enter into an agreement to pay for an item with an agreed cost over a period of time, the costs including interest are tax-deductible.



PARKING

As a tax-deductible expense, your employees can be reimbursed for parking near the work premises without incurring any benefit-in-kind charge.



LEASING RENTAL

Both finance leases and operating leases are accounted for in different ways. Under a finance lease, the item is reflected on the balance sheet as an asset with depreciation charged against it. The payments, including interest, can be claimed against tax.

Operating leases are normally for shorter terms than the life of the asset and are therefore not reflected on the balance sheet. These payments are treated as rental costs and are allowable against business tax.

DNA ACCOUNTING TIP:

The rules on pool cars are tricky and can trigger large tax bills if not handled correctly. We recommend seeking guidance from your accountant to avoid any unexpected costs.



MOTOR VEHICLES

These are business assets and are reflected on the balance sheet as capital costs. Depreciation is charged against the cost and capital allowances can be claimed. It normally incurs a benefit-in-kind, but it's rare for a small company to provide a director with a car.

If used as a "carpool" vehicle, to avoid a taxable benefit for the employee it must not be kept at or near their home.

MARKETING AND ESTABLISHING COSTS



MARKETING COSTS

Marketing expenses are tax-deductible. The cost of creating a website should be reflected on the balance sheet with amortisation charged, being treated as an intangible asset. If the website performs a direct function for your business (like purchasing items directly from the site), the website costs are capitalised.



ADVERTISING

Where advertising isn't a capital investment, these costs can be claimed.



BUSINESS STARTUP COSTS

You can claim costs associated with incorporating your company and setting up VAT and PAYE registrations, but the formation fee can't be claimed as it's a capital cost.



SUBSCRIPTIONS TO PROFESSIONAL BODIES

Certain professional fees can be claimed against business tax, with HMRC providing a **list of approved organisations** that qualify. Note that the fees must be relevant to the employee's duties.

OTHER COMMON EXPENSES



ANNUAL INVESTMENT ALLOWANCE

You can claim tax relief on expenditure on “plant and machinery”, referring to items you use to keep your business running, i.e. office furniture, computers, lighting systems.



CAPITAL ALLOWANCES

This is claimed on assets reflected on your balance sheet and can amount to 100% relief. Cars with high CO2 levels are the notable exception.





CHARITABLE DONATIONS

As long as the donation is made to a registered charity and doesn't force your business into a loss-making position, these can be claimed.



CHILDCARE VOUCHERS

Your employees can claim up to £55 per week without incurring tax or National Insurance costs and it isn't reportable to HMRC. It means team members can benefit up to £933 per year, and as an employer you'll benefit up to £400.



FOREIGN CURRENCY

Any exchange rates associated with exchanging business cash are a tax-deductible expense, but if a profit is incurred this must be declared as an income stream and will be taxed accordingly. The exchange rates must be approved by HMRC.



HOME WORKING EXPENSES

If you're using your home as an office, you can claim a round sum allowance of £6 per week to cover the additional costs of working from home. This can be claimed without any supporting paperwork.



SCHOLARSHIPS

Any scholarships you offer to employees are exempt from income tax and National Insurance, as long as they meet certain conditions. You must offer a full-time course and the grant can't be more than £15,480 per year (not including course fees). You can't claim this cost as a business expense, and the recipient of the scholarship can't be a family member of the director or shareholder.



SPONSORSHIP

Sponsorships of both kinds are tax-deductible: whether your business receives something in return for the sponsorship, or receives nothing in return.



TRIVIAL BENEFITS

HMRC treats certain employee benefits as “trivial benefits”.

Keep in mind they're quite strict about what counts as a trivial benefit, and all conditions must be met:

- 1** It costs £50 or less to provide
- 2** It isn't cash or a cash voucher
- 3** It isn't a reward for their work or performance
- 4** It isn't in the terms of their contract

If all of the above are met, you won't need to pay tax or National Insurance on the expense. It also means you don't have to report these expenses to HMRC as benefits-in-kind.

To avoid unexpected costs, remember:

- If the cost of the benefit exceeds £50, the whole amount becomes taxable, not just the excess amount.
- Directors can't spend more than £300 per year on trivial benefits for themselves.

IF IN DOUBT, TALK TO YOUR ACCOUNTANT.

The rules around tax-deductible expenses are strict and not always black-and-white! If you have any uncertainty about whether a cost is allowable, the best thing to do is to seek expert guidance.

At DNA we work closely with the owners of small limited companies. We're here to advise on expenses, relieve the burden of accounting and be your sounding board and support as you run your business.

Book an informal, friendly chat with us
and let's talk about how we can help you feel confident you're claiming as many expenses as you can within HMRC compliance.

