

BUSINESS TAX

Business Expenses: What You Can and Cannot Claim

The test for a deductible business expense, the common items that qualify, the ones that do not, and the grey areas to ask about.

FOR: SOLE TRADERS, PARTNERS AND DIRECTORS • ANY EXPERIENCE

The basic test

To deduct a cost from your business profits, it must be incurred **wholly and exclusively** for the purposes of the business. "Wholly" means the whole of the cost, and "exclusively" means it is for the business, not for a private purpose too. If a cost has both business and private elements, you can usually claim only the business part, if it can be fairly separated. If it cannot be separated, such as a suit for meetings, you generally cannot claim it.

It must also be a **revenue** cost, a cost of running the business, and not a **capital** cost, such as buying equipment, which is dealt with under capital allowances. And it must be incurred in the period, and recorded properly.

What you can usually claim

- **Cost of goods sold:** stock, materials, subcontractors, packaging, postage.
- **Premises:** rent, business rates, utilities, cleaning, repairs.
- **Staff:** wages, employer's national insurance, pensions, training, recruitment.
- **Travel:** fares, fuel and mileage for business journeys, parking and tolls, accommodation and subsistence on business trips.
- **Office costs:** stationery, phone, internet, software and subscriptions.
- **Professional fees:** accountancy, legal fees for trading matters, insurance.
- **Marketing:** advertising, website, promotional items.
- **Bank and finance charges,** and interest on business loans.
- **Training** that maintains or updates skills you already use.

What you cannot usually claim

- **Client entertainment,** even if you hope to win business.
- **Fines and penalties,** including parking fines.
- **Private costs,** including food, clothing and travel between home and your usual workplace.
- **Depreciation,** which is replaced by capital allowances.
- **Most gifts to clients,** unless small and with a business logo, and subject to conditions.
- **Costs not incurred for the business,** or incurred by someone else.

Who this is for

- Sole traders and partners filing a return
- Directors claiming personal outlay
- Anyone unsure whether a cost qualifies

Key points

- Wholly and exclusively for the business.
- Mixed costs need a fair, recorded split.
- Capital items get allowances, not expenses.
- Evidence is as important as eligibility.
- When in doubt, ask before claiming.

Grey areas

ITEM	USUALLY
Clothing	Only protective clothing or uniforms with a logo
Home working	A proportion of the extra costs, or a simple flat rate
Phone and internet	The business share
Car and van	Mileage rate, or a share of actual costs, depending on structure
Meals	Only on genuine business trips, and subject to conditions
Training	Allowed to maintain skills, not to start something new
Start-up costs	Costs before you begin may be claimed, in some cases, up to seven years back

Check the rules for each, because the right answer depends on your circumstances and structure.

Sole traders and companies are different

A sole trader claims costs against their own profit, and a limited company claims costs that the company incurs. If you pay for a business cost personally, you can claim it back from the company, which records it. Some benefits you take from a company, such as a car, may be taxable on you. Our guide on employee benefits explains.

Simplified methods

HMRC offers flat-rate allowances for some costs, such as use of home, business use of a car or van, and living at a business premises, for small businesses. They are simpler to record, but may give a smaller or larger claim than actual costs, so compare them.

Keep the evidence

For each expense, keep the receipt or invoice, a note of the purpose, and for mixed items, a workings sheet. A claim that cannot be supported is a claim that may be reversed, with a penalty. Our guide on expenses and receipts covers how.

Be honest, and ask

Claiming a private cost as a business one is the most common reason for penalties. If you are unsure, ask. A short question now avoids a long argument later.

Related guides

If this is useful, you may also want:

- Expenses, receipts and mileage
- Capital allowances
- Benefits and expenses

Before you claim

- Is it wholly for the business?
- Is it a running cost, not a purchase of an asset?
- Is there a receipt?
- Is there a private element?
- Is it in the right period?

How King Street can help

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We review your expense claims through the year and at the year-end, advise on the grey areas, and make sure the evidence is in place before you claim. For sole traders and directors, we explain the choice between simplified and actual costs.

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