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Allowable Business Expenses for Sole Traders

A Guide to Common Business Costs and Expenses





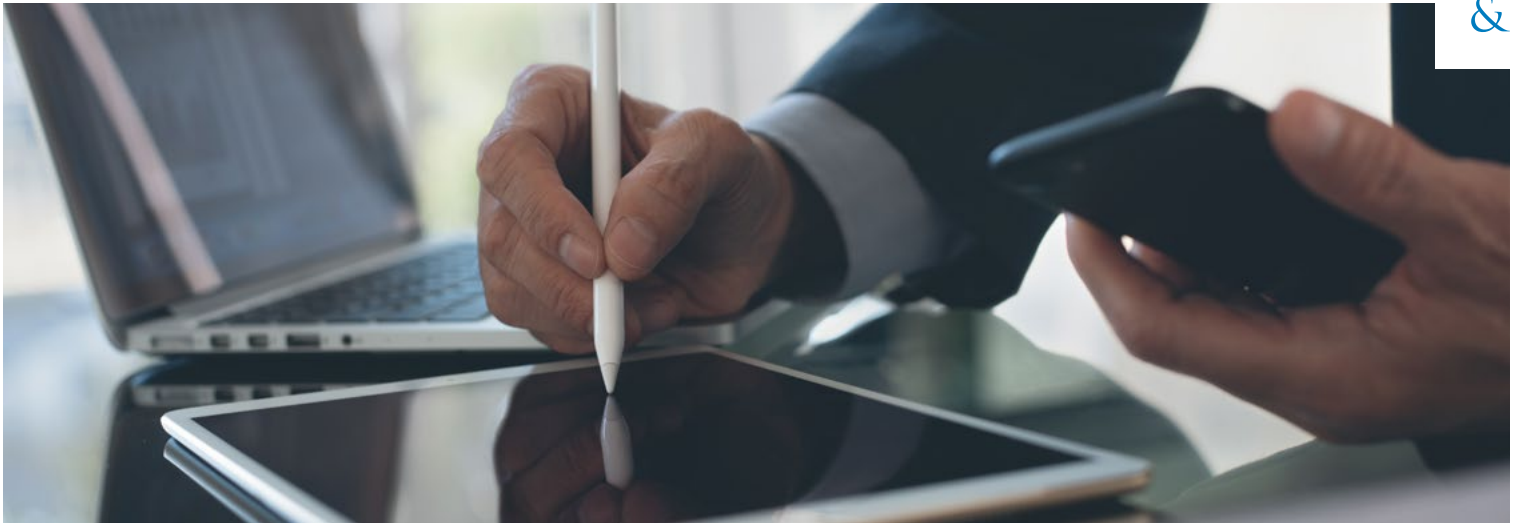
Sole Trader Allowable Business Expenses

As a sole trader, your business naturally incurs running costs. The good news is that many of these running costs can be claimed as business expenses, meaning you'll pay less tax and get to keep more of your hard-earned money.

However, it's easy to forget or lose track of what can and can't be claimed as an expense, given the array of eligible items. Ultimately though, this means you could be paying more tax than you need to be. So we've created this guide to list the common expenses you can claim as a sole trader.

The rule of thumb when claiming for any expenses is that you can only claim for expenses which are 'wholly and exclusively' incurred in the performance of your duties. When in doubt, contact a member of our team and we'll be happy to help.





Office and equipment

Rent

If you rent an office that you use just for business, you can claim tax relief on the full cost of that rent. The exception is a rent deposit, which goes on your balance sheet and isn't available for tax relief.

Telephone and broadband

If you're using a home or mobile phone line for both business and personal calls you can't claim for line rental, because there is a dual purpose.

However, you may claim expenses for the business phone calls used on that line, provided they can be identified on the phone bill. Alternatively, you could set up a separate phone line or mobile contract in the business name which is used 100% for business. The same approach is taken when determining the allowable expenses associated with broadband.

General office purchases

Minor purchases that are used wholly and exclusively and necessarily in the performance of your duties are claimable. This includes things like postage and office stationery, but make sure you keep the receipts.

Computer software/subscriptions

You can claim tax relief on the cost of software or subscriptions as long as it is used for business purposes. For example, a self-employed graphic designer could claim the cost of any design software subscription they use.

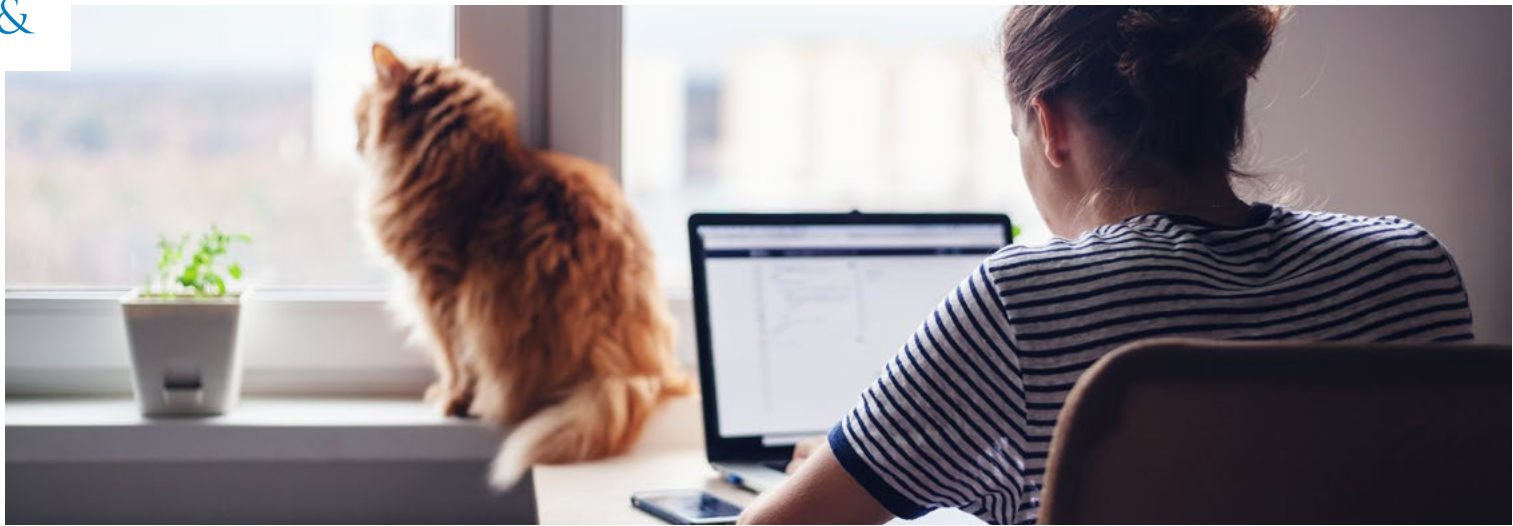
Fixed assets

The cost of anything that is necessary and essential for your business will receive tax relief. Although these aren't expenses that reduce profits, you receive capital allowances that decrease the amount of income tax paid.

This covers computers, printers, and software. You may also claim reasonable relief towards the cost of equipping and furnishing a business office. This may appear to hold a dual purpose, but it is allowed because the assets are used in a room that is used for business purposes.

Utilities

You can claim tax relief on the full cost of water, heating and lighting at your business office.



Working from home

Use of your home as an office

If it's necessary for you to work at home and not just for conducting additional work outside of the office, you're entitled to calculate your allowable home expenses.

You have two choices, you can choose to claim simplified expenses for the self-employed or you can work out your actual costs by calculating the proportion of personal and business use for your home, e.g. how much of your utility bills are for business. Gov.uk has a [simplified expenses checker](#) to help you decide which method is best for you.

The main method is known by HMRC as simplified expenses, which uses a flat rate based on the hours you work from home each month. The flat rate doesn't include telephone or internet expenses. You can claim the business proportion of these bills by working out the actual costs.

You can only use simplified expenses if you work for 25 hours or more a month from home.

Hours of business use per month	Flat rate per month
25 to 50	£10
51 to 100	£18
101 and more	£26

It's important to note that careful consideration should be made to how you claim business use of home costs. In some instances, you can create a Capital Gains Tax charge upon the sale of your property. Speak to a member of our team and we will be able to advise on your specific circumstances.

If you want to use a more complex method by calculating the proportion of home running costs used in running your business, again, please contact our team.

Rent, mortgage and council tax

If you work from home and pay rent to a landlord, you may be able to claim a proportion of the rent for your business, as well as claim a proportion of your council tax cost. If you pay a mortgage, you may be able to claim tax relief for a proportion of the interest that you pay, but not the capital repayment.

Utilities

If you work from home, you can claim tax relief on a percentage of your gas and electricity costs, based on how much you use your home for business.

Remember, if you use a lot of your home water supply for business, e.g. if you run a car washing service, then you would need to apply to the water company for the business use to be separately charged, and you could claim tax relief for the full cost. If your business use of water is only small, you can't claim tax relief for any of the business cost.

Property repairs

If you work from home and have repaired your property, you may be able to claim tax relief on some costs. If a property repair relates solely to the part of your home that's used for business, you would include this cost in your accounts in full, subject to the business use of that room.



Travel

Vehicle

If you're self employed and using your own car, and your sales are under the VAT threshold – currently £85,000 for the 2021/22 tax year – the simplest way to claim tax relief for your running costs and petrol is to include your business mileage in your accounts at HMRC's approved rates. You can only use this mileage method if you haven't claimed capital allowances on that vehicle before. If you drive both a car and a van or lorry for business, then you only get one allowance for all the vehicles that you use.

Mileage

If you're self-employed and using your own car, the simplest way to claim tax relief for your running costs and petrol/diesel is to include your business mileage in your accounts at HMRC's approved rates. If you don't know these then please get in touch. Another option is to calculate your car running costs and claim a percentage, which may save you tax if you have a car that's comparatively expensive to run.

Parking, tolls and fines

You can claim for the full cost of parking and tolls so long as it is for business purposes. However, parking and speeding tickets can not be claimed.

Food and drink

As a self-employed person you are allowed to claim the cost of very little of the food and drink you buy when you're out and about on business. HMRC takes the strict line that everyone must eat to survive, but it does have a few exceptions. If this is something that you would like to learn more about then please get touch with our team.

Travel

HMRC doesn't give any explicit guidance about what counts as a claimable business journey for sole traders. It only says that if the travel is "regular and predictable", or between home and a "base of operations" such as a co-working space where you spend most of your working days, then the costs couldn't be claimed. Talk to us about your specific circumstances if you'd like to know more.

Hotel accommodation

You can only claim tax relief for the full cost of hotel accommodation if the primary purpose of your stay was for business. If it was mixed, so for both business and private purposes, then you can only claim tax relief for any costs that you can clearly separate from the private part of your stay. If you can't separate the stay between business and private, you can't claim tax relief for any of the costs.

Train and plane tickets

Like hotel accommodation, you can only claim the cost of train and plane travel in full if the primary purpose of your journey was for business. If it was mixed then you can only claim any costs that you can clearly separate from the private part of your journey.

Cycle travel

HMRC says that sole traders and partners can't claim tax relief on business journeys undertaken by bicycle. If you employ someone, then they can claim tax relief on business bicycle travel – but you can't!



Clothing, financial, health and other costs

Accountancy fees

You can claim expenses for your businesses accountancy fees, providing your accountant's time is being spent working on your sole trader accounts and not on personal items.

Bank and other financial charges

Business accounts

If you have a business bank account that's separate from your personal accounts, you can claim your interest and charges incurred for tax relief. If you are preparing your accounts on the cash basis, you can claim a maximum of £500 a year in interest and charges.

Personal accounts

If you use a personal account for your business banking, the amount of interest and charges you can claim tax relief on will depend on how much you use the account for business. If the business use of the account is minimal, then you shouldn't claim any tax relief on these costs, but if you use the account mainly for business, then it's worth including at least some of these costs. Like before, if you use the cash basis of accounting, you can't claim more than £500 for this.

Animals

You may be able to claim tax relief on the costs associated with some animals, such as farm animals or guard dogs. If you think this may apply to your business then get in touch so we can explain further.

Medical insurance and health costs

Unfortunately for sole traders, health and medical insurance costs can rarely be claimed as an expense.

Charitable donations

For a sole trader business, you and the business are legally the same entity. This means that even though you might be making donations from your business bank account, it's still treated as though you personally donated the money, so you won't get any tax relief. However, if you donate via Gift Aid the receiving charity can receive 25p tax relief for every £1 you donate.

If you're a higher or additional rate tax payer, your basic rate band is increased by the value of the donation, thereby increasing the proportion of your income taxed at the lower rate.

Eyesight tests and glasses

You can claim for eye tests providing it is necessary for the initial or continued use of visual display equipment in your duties. However, you can't claim for glasses as they offer a dual purpose and are not solely related to business use, unless they are prescribed only for use during your time at work.

Pension contributions

Pension contributions to your own pension count as personal costs, so if you pay these from the business account, you can't claim tax relief on them through your business accounts. Instead, you would claim tax relief on them by putting them into the 'Tax Reliefs' section of the main part of your tax return.

Clothing

Generally, claiming for any clothing that is or could be part of an "everyday wardrobe" is not allowable – so if you have to buy a suit for work but it could be worn elsewhere, you cannot claim for the cost.

However, you can claim tax relief for the cost of, for example, protective clothing, e.g. if you are a warehouse worker and you buy a helmet to wear on the site. Or if you are an entertainer and the clothes you're buying are a costume or outfit that's needed for a TV, film or stage performance.





Marketing and Entertainment

Advertising, marketing, and PR

You can claim tax relief on advertising and marketing costs for the business. However, some costs may not be allowed by HMRC, such as taking a client out to lunch.

Entertainment

When you're entertaining your employees, this may be allowable for tax relief in your business's accounts, but it could also be a benefit on which your employees have to pay some tax. In order for a party to be what HMRC calls a "qualifying event" and therefore not a taxable benefit for your staff, it must meet all of these three criteria:

- It is an annual event, such as a Christmas party
- It is open to all team members, and
- It costs less than £150 per guest

If any of these three conditions aren't met then the whole cost of the event becomes a taxable benefit.



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