

## Business Expenses

Whatever type of business you run, whether it is a limited company, partnership or you are self-employed, when completing your tax returns you need to consider which business expenses are allowable and can be claimed against your taxable income.

This fact sheet looks at which types of business expenses are allowable and how they should be treated.

### Treatment of business expenses

Even though your expenses may be legitimately incurred for your business, they will either be allowable or disallowable for tax purposes.

Broadly speaking, you can deduct from your turnover all the costs you incur for the sole purpose of earning business profits. These are known as allowable expenses.

The following gives some examples of the types of cost which are allowable as legitimate types of business expense:

- Products purchased for resale
- Materials used to make goods to sell
- Rent, rates, light and heat of business premises
- Advertising and marketing
- Bank charges and loan interest

Business expenditure is deducted in your accounts for the period in which it was either incurred in or to which it relates. This is the case even if you are not due to pay the money until later (materials from your suppliers), or even if you have paid in advance for the service (membership subscription).

Note that the VAT treatment for expenses may differ from the income tax treatment.

### Disallowable expenses include:

- Costs that you incur for a non-business purpose, such as your own personal expenses or drawings.
- Capital costs, i.e. the cost of buying equipment which will last for several years. You may be able to claim capital allowances on these capital costs.
- Certain costs are disallowed under special tax rules – such as leasing expensive cars.

### Vehicle Expenses

If you're self-employed and you want to claim for vehicle expenses you must remember that if it is also used for private use, only business use counts as an allowable expense.

For example if your total vehicle expenses were £4,000 and 25% of your mileage was private, only 75% of the cost can be claimed against tax.

