

Lera Accountancy

Sole Traders Business Expenses Guide



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Introduction

As a sole trader, your business will incur running costs. Many of these running costs can be claimed as business expenses, helping you reduce your profits which means you will pay less tax and keep more of your hard-earned money.

This guide is intended to help sole traders understand what expenses are allowable as a deduction from profits so that irrespectively of whether you hire an accountant or decide to do your **self-assessment tax return** by yourself you can make informative and correct decision.

What exactly is tax relief?

Allowable business expenses reduce the amount of profit on which sole traders pay Income Tax. So, more allowable expenses means less taxable profit and less tax to pay.

To account for your expenses properly, you need to keep accurate records of everything. Bear in mind that you're legally bound to keep these records for six years.

HMRC rules can be complex and are often based on concepts such as the 'fairness' and 'reasonableness' of expenses claimed. When in doubt, always contact an accountant such as **Lera accountancy** for advice.

Claiming expenses

Sole traders can claim back any expenses they've incurred that relate directly to their business in much the same way as **limited companies**. 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.

HMRC will normally allow your claim if you meet these conditions. When there are both personal and business elements (i.e. dual purpose) to your claim it's unlikely to be accepted, because the expense would be needed regardless of the business.

For example, if your monthly mobile phone bill is £50 but you only use your phone 50% of the time for business use, you can only claim for £25 as an expense.

However, if the dual purpose is only incidental because of a business necessity, the claim may still be valid, such as protective work clothes or uniforms that could also be used for personal use.

Sole traders claim their expenses when they file their **Self-Assessment Tax** returns; this is typically done at the beginning of each year (the deadline is 31st January for online filing), although they can file any time from the end of the previous tax year on 5th April.

Keeping a record of business expenses

Keeping track of your expenses such as business mileage is essential, as without the breakdown of journeys and mileage covered, HMRC could refuse to validate your claim.

Usually, you are detailing all business mileage on a spreadsheet and keeping it up to-date throughout the year. If you're claiming tax relief for fuel when using a company owned car, you must keep hold of all of your receipts.

For other business expenses then the cost of anything that's necessary for the running your business will receive tax relief – the trick is to make sure you meticulously record everything so you don't lose out. If you're not using online accounting software the best way to keep track of what you've spent on supplies and other expenses such as travel and subsistence is, again, in a spreadsheet.

The main difference is you don't have to record each item separately – for example, if you have bought 10 packs of 100 pens at £3 each, you can record it as 1000 pens – £30. It is, however, important to keep the receipts for every separate purchase. Receipts must be kept for six years after you have filed your returns, as HMRC could decide to investigate at any point within this time.

If you're just away for the day, you can claim lunch costs if you exceed five working hours, this extends to dinner if you're working up to ten hours. As always, ensure that you keep receipts for everything. It's also advisable to log all expenses in your accounting software, or on a spreadsheet so that you always have the date and exact costs at hand in case HMRC decide to take a closer look. Also be aware that HMRC take a dim view of excessive use of taxis, particularly if they appear unnecessary – i.e. it was a very short journey. Storing receipts can be done in a variety of ways and it's always best practice to keep the paper copies somewhere safe, as well as backing them up digitally with a picture on your phone for example (receipts tend to fade, but digital backups will remain pristine forever). You can manually scan them or use a mobile app to record the details.

Accommodation whilst on business travel

Full tax relief can be claimed on accommodation used when travelling for business related purposes, providing the expense is reasonable and not excessive. HMRC will likely question the necessary need for you to stay at five-star hotel, however, this does not necessarily mean that you have to travel on the breadline.

Accountancy fees

You can claim expenses for your businesses accountancy fees, providing the accountants time is being spent working on your sole trader accounts and not on personal items, such as the production of your HMRC Self-Assessment.

Business mileage

If you use your personal vehicle for business travel to a temporary work location you can claim the following rates:

Vehicle	Rate Per Mile (On first 10,000 miles in tax year)	Rate Per Mile (On each mile over 10,000 miles)
Cars & Vans	45p	25p
Motorbikes	24p	24p

Ensure that you keep receipts of everything and a mileage log. Also, be aware that HMRC may query any excessive use of taxis.

There are plenty of mobile apps that can automate the process for you as well.

HMRC do not allow business mileage to be claimed by sole traders using a bicycle, which is rather unfortunate for those green minded, or even cycle couriers. However, you may be able to claim the costs of buying a bicycle for work and consumables such as tyres or maintenance. Any personal use of the bicycle is likely to reduce the amount you can claim. It's best to speak to an accountant or your local tax office to confirm what you can claim.

Charitable donations

For a sole trader business, you and the business are the same legal 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. This means the business won't get any tax relief.

However, if you donate via Gift Aid the receiving charity can receive 25p tax relief for every £1 that you donate. For a donation to receive Gift Aid, you often need to fill in a specific Gift Aid form for your chosen charity or at least tick a box to indicate that you want Gift Aid to apply.

If you're a higher rate taxpayer, you can claim back the difference between the tax you pay and the basic rate for the value of your donations. If you donate £100, you can claim back £25.

Eyesight tests and glasses for sole traders

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

Fixed assets such as equipment and office furnishings

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/furnishing a business office, e.g., chairs, bookcase.

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.

General office purchases

Minor purchases with receipts that are used wholly and exclusively and necessarily in the performance of your duties are claimable. This includes postage, computer consumables, and office stationery.

Medical insurance and health costs

Unfortunately for sole traders, health and medical insurance costs can rarely be claimed as an expense as it is unlikely to be required for the purpose of your business.

Pensions

As a sole trader payments to your pension aren't allowed as an expense, but instead you can get personal tax relief from contributions you personally make into your own pension scheme.

Professional subscriptions

Claims to certain HMRC approved professional bodies which are relevant to your work are allowed. If it's not directly relevant then it's not allowed.

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, i.e. the expenses aren't exclusively for business purposes.

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.

Training

The cost of work-related training courses is allowable if it relates to the trade being carried out by the business. So a course to enhance your existing knowledge which relates to your trading activity will be allowable. However, a course to retrain you with a new skill to enable you to branch out into new sectors or offer a new service will not be allowable.

It's therefore important to be able to demonstrate that the training is directly related to the income which is currently being generated by your business.

Travel and subsistence

You can claim for travel expenses as long as that travel is wholly and exclusively for business purposes and is not a regular commute to a base of operations. However, occasional trips to the same place are still claimable. This specifically works in favour of 'itinerant' workers. Itinerant workers are sole traders who have no specific base of operations and have work locations that vary from job to job.

Expenses relating to airfares, train tickets and ferries can also be covered under business travel, provided the above points are applied and the travel is for business purposes. Tolls, congestion charges, and parking fees are all allowable expenses, where the travel is for business. However, you can't claim a parking fine as a business expense.

You can claim for the cost of hotel rooms and meals on overnight business trips. HMRC accept that extra allowable costs for food and drink may be incurred where the nature of your business is 'itinerant' (for example a construction worker who works in a different location every week). However, these rules are complex and you should seek advice from an accountant to see if these apply to your business.

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

If you want to use a more complex method by calculating the proportion of home running costs used in running your business, please seek advice from your accountant.