

THE 7 DEADLY TAX SINS



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throwing away money

Every single receipt is precious for a small business. If you are limited company then every £1 on your expense receipts saves you 20p in corporation tax; for a sole trader it could be more.

You don't need a personal assistant or a super high tech software package in order to keep good records, you just need a system that works for you.

At the very, very minimum you need somewhere specific to put all your business receipts each day so they don't get mislaid, forgotten or go through the wash in your trouser pocket.

Your system needs to be something that makes it really easy for you and fits with how you prefer to work. The less effort involved, the more likely you are to be successful.

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Sin 1

missing out on use of home

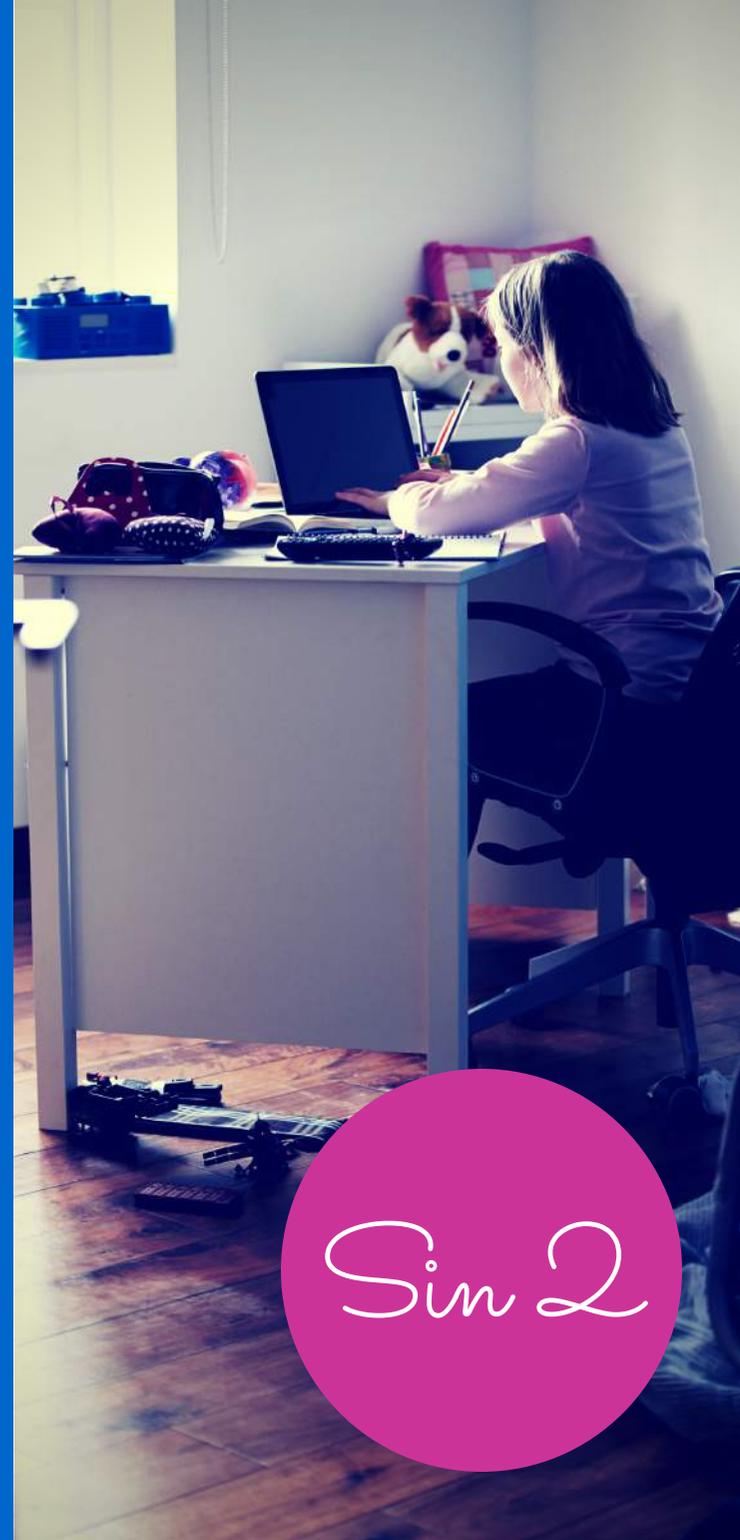
Whether you work entirely from home, or just do your invoicing from the kitchen table, you can claim an element for use home as an office in your business expenses.

How much you can claim depends on whether you are a sole trader or a limited company and also on your particular business set-up.

You can claim via a flat rate or a percentage of expenses method.

Answering emails, social media or invoicing customers in the evening still counts as use of home if you are doing it on a regular basis. You just need to be honest about how much time you are spending.

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Sim 2

claiming both motor and mileage

There are two ways to include the cost of your business motor expenses. You are allowed to use either the full cost method or the mileage method.

A really common mistake is to end up with a mixture of the two, charging business mileage but then also including car tax, MOT, repairs etc. Unfortunately this is not allowed; it has to be one or the other. Both methods are supposed to cover all the business related motor costs so using both together would be double counting.

Which method to choose depends on the type of journeys you are making and whether you are a limited company or sole trader.

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Sin 3

including your daily commute

You can't include any expenses for your journey between your home and base of work as this is considered to be part of your ordinary commute. Other travel outside the ordinary commute is generally allowed provided it is "wholly and exclusively" for business.

It is important to establish where your base of work, or permanent workplace is, so that you know what counts as your commute.

The tax rules for limited company directors are slightly different than for sole traders as a director is considered to be an employee of the company.

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claiming for your clothes

Are you putting clothing through your business that is not allowed? You will be surprised how little you can actually include.

The only items of clothing you can safely include are protective clothing required for your work (high-vis vests, safety boots etc), uniforms, (beautician's tunic, nurse's uniform etc) and your costumes, if you are an entertainer.

Anything that could be part of your everyday wardrobe is not allowed as a business expense. However, there is a bit of a grey area around clothing that has had a company logo put on. Company directors have some extra complications around clothing as a taxable benefit.

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Sin 5

meals that are not allowed

In general food is not a business expense because everyone must eat to live. However, there is recognition that meals while out and about traveling can end up costing more and so these are allowed.

You can include expense for food and drink during the day on journeys that are outside the normal pattern of work, as part of necessary travelling in the course of the job. You can also have your dinner and breakfast when staying overnight for work.

You are not allowed food and drink at your home base, on your normal commute or as part of the normal pattern of work. There are also some special complications for contractors on long-term projects.

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Sim 6

entertaining

Entertaining is providing hospitality and entertainment for customers, potential customers and other people. It's often food and drink but could include event tickets as well as accommodation, use of the company yacht, gifts and free samples.

The only entertaining that is allowed for tax purposes is entertaining staff, such as a Christmas party. Even then there are strict conditions around what is allowed before it becomes a taxable benefit.

Entertaining customers or potential customers, subcontractors or anyone who isn't an employee of the company is not allowed. Directors with no other employees and sole trader cannot entertain themselves even at Christmas!

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Sin 7

including personal spending

All expenses have to wholly and exclusively business.

It is really, really important to keep personal spending separate because it's just not worth the risk if you get a tax investigation.

For expenses that are a mixture of business and personal you can separate out the personal use percentage e.g. you might split your mobile phone bills and put 75% as a business expense and 25% personal.

You make personal purchases from your business account but you can't include it them as business expenses. However it's best to avoid this altogether if possible.

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