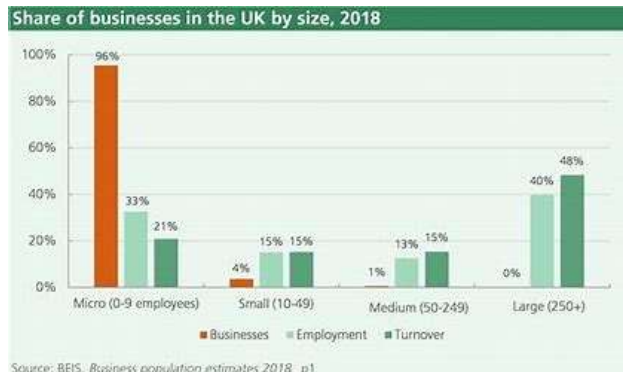


# Simplified Expenses for Smaller Businesses

## Introduction

Certain unincorporated small businesses may choose to use the ‘cash basis’ when calculating taxable income, under which participants are taxed on the basis of the cash that passes through their books, rather than being asked to undertake complex and time-consuming calculations designed for big businesses. Whilst easing the administrative burdens of preparing ‘traditional’ accounts, using the cash basis can also help with cash flow as it will not be necessary to accrue for income not yet received, or expenditure not paid out.



To complement the cash basis, HMRC also introduced ‘simplified expenses’ for small businesses. Basically, instead of working out the exact cost of certain expenses, HMRC allow the business to deduct a standard, or flat rate amount. Simplified expenses can apply to the following expenses:

- standard mileage rate for business use of cars or motorcycles;
- flat rate expenses for business use of home; and
- flat rate adjustment for personal use of business premises.

The taxpayer should, where relevant, record business miles for vehicles, hours worked at home and the number of people living at the business premises during the course of the tax year. At the end of the tax year, HMRC’s flat rates are used to work out the expenses, which are then included on the self-assessment tax return.

## Vehicles

HMRC’s flat rate mileage allowances are designed to cover all vehicle-related running costs (insurance, repairs, servicing, fuel etc.). Current rates are as follows:

- first 10,000 miles- 45p per mile
- exceeding 10,000 miles – 25p per mile
- Motorcycles – 24p per mile

Using mileage rates is not obligatory, but once they have been used for a vehicle, they must continue to be used for as long the vehicle is used for the business.

Other travel expenses – train journeys, parking and such like – may be claimed on top of the mileage rates.

Where a car is purchased for business use, capital allowances may be claimed, but only if simplified expenses are not being used to work out business expenses for that vehicle.

## Business use of home

A monthly deduction will be allowable if certain criteria are satisfied. Current rates are as follows:

| Number of hours worked | Monthly amount |
|------------------------|----------------|
| 25 to 50               | £10.00         |
| 51 to 100              | £18.00         |
| 101 or more            | £26.00         |

The number of hours worked in a month is the number of hours spent wholly and exclusively on work done by the person, or any employee of the person, in the person’s home wholly and exclusively for the purposes of the trade.

## Mixed use

Where premises are used for both business and private purposes, instead of making the standard deduction outlined above, the business can make a deduction for the non-business use. The allowable deduction will therefore be the amount of the expenses incurred, less the non-business use amount. The non-business use amount is the sum of the applicable amounts (see below) for each month, or part of a month, falling within the period in question (usually the tax year). The applicable amounts are as follows:

| Number of relevant occupants | Applicable amount |
|------------------------------|-------------------|
| 1                            | £350              |
| 2                            | £500              |
| 3 or more                    | £650              |

A relevant occupant is someone who occupies the premises as a home, or someone who stays at the premises otherwise than in the course of the trade.

### Information to readers

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## Benefits

Simplified expenses may help reduce business and household costs, without needing to retain the associated paperwork. However, like any flat-rate scheme, simplified expenses may result in an increased tax liability. The scheme may not be for everyone and certain checks should therefore be made before using it.

## Recommendation

The method of simplified expenses provides an opportunity to claim appropriate expenses without the need for complex calculations and paperwork.

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