Are You Maximising Your Tax Deductible Expenditure?

When you are self-employed, you can claim tax relief for expenses that are incurred “wholly and exclusively” for the purposes of the trade, profession or vocation. However, at times, it can be complicated to determine whether the expense is fully, partially or not at all tax deductible.

The general rule is that where an “identifiable proportion” of the expense is “wholly and exclusively” for the business, you may claim that proportion as an allowable expense against the business income. On the contrary, if there is no separate identifiable business element, you can claim nothing and the whole expense is treated as if it were private, often termed as “duality of purpose” expenses by HMRC, such as clothing and meals. Only in exceptional circumstances would such expenses usually be business expenses, e.g. specific items of safety clothing or meals taken as part of a business journey away from home.

This is not the exhaustive list, however, certain expenditure clearly fits under the heading that is allowable and includes costs such as:

- Professional indemnity cover;
- Most professional subscriptions;
- Drugs and medical supplies;
- Assistance and secretarial fees;
- Printing, postage and stationery;
- Wages and salaries of the employees;
- Rent of room and instruments;
- Marketing and advertising costs;
- Accountancy fees.

Clearly, these costs are incurred “wholly and exclusively” for the purposes of trade, therefore do not normally face much challenge from HMRC. There are other costs that are more contentious and are picked up more often for an HMRC enquiry and some of these include:

- Motor and travel expenses;
- Use of home;
- Salary to spouse;
- Clothing.
These are often challenged by HMRC and an overview of the principles involved is as follows:

Motor and Travel

HMRC has been arguing that, for the majority of self-employed doctors and consultants, there is very limited business use of motor vehicles until they recently challenged the test case involving a self-employed consultant successfully. The principles behind this case was to challenge the base of operations for the business as home and whether the private hospitals where work is performed represent temporary places of work. Thus, any travel involving home would be disallowed as it is not necessarily a business base, merely because you carry out work there and also, there is a dual purpose in the travel.

The recent tax case involving Dr Samadian and HMRC has significant ramification on the claim put forward as deductible expenses in this area where the taxpayer’s appeal failed. HMRC disagrees that any journey starting or ending at home has the function of allowing the doctor to live away from where they work and is disallowable as normal commuting, therefore the post-case position is as follows:

- Travel between business bases is deductible unless the base is home;
- Travel to and from home has a dual purpose and is therefore disallowable;
- Travel from a non-business base to a business base is not an allowable expense

A clear mileage log that lists specified journeys for a representative period of time to a more sophisticated logging system can be maintained in order to support the business claim. There are numerous mobile applications also available that can be downloaded into your mobile device to incorporate the comprehensive mileage record at great ease. You can record all journeys from any business base to decide upon the appropriate business expense claim.

Use of Home

Normally, if a consultant or doctor uses their home to perform paperwork, administration, store files and review patient records, then they would be entitled to a deduction in respect of the use of home for the purpose of business. This can be a fixed deduction per week without any calculation or a certain business percentage of overall household running costs with due regard to the area and time used for business. The latter can be particularly contentious and some form of diary or timesheet is likely to substantiate the cases where there is not a set pattern or degree of regularity.
Salary to Spouse

Providing a certain role to a non-working family member or spouse in the business can be tax-efficient, particularly if they have limited or no earnings. The vital point to ensure here is that the salary is commensurate with the work they carry out and is paid at a reasonable rate, based on their knowledge and experience. It is sensible to provide the outline of duties and responsibilities for the position to ensure that, should HMRC enquire in this area, the position can be defended as somebody else is required to perform this job.

Clothing

The assertion that you need to look smart and professional to see the patients privately and so the cost of new suits must be tax deductible is not valid for tax purposes. There is a well-established tax case for a barrister using the same argument for meeting clients and days in court who was unsuccessful. They have an “intrinsic duality of purpose” meaning clothing can be used for work and non-work purposes. Unless it is protective clothing (e.g. hard hats, overalls, aprons, etc.), expenses of this nature are generally disallowable for tax purposes.

Summary

The expenses with business and private use with an identifiable business element can be tax deductible, such as mobile, telephone, motor expenses and are computed based on the overlap of the business element (e.g. 30%).

The expenses with dual nature and no identifiable business element are deemed to be private and not allowable for tax, such as clothing and meals.

You must keep certain records that document and explain all the transactions for your business. These records should include all documents that you use to determine your income and expenditure. You have to keep your records for at least five years from the end of the tax filing deadline date. For example, if you file your 2012/13 tax return by 31st January 2014, you should keep your records until at least 31st January 2019, or even longer if it involves buying and selling assets.

There is a detailed guidance on the “wholly and exclusively” rule in the HMRC online Business Income Manual as follows:

http://www.hmrc.gov.uk/manuals/bimmanual/bim37000.htm