

Business taxation: fixed rate expense rules

Background

The general rule for expenses that are incurred in part for business and in part for private purposes is that a tax deduction is given for an appropriate apportionment of the actual expenses. From 6 April 2013, simplified rules allow unincorporated businesses to choose instead to apply fixed rate deductions (or disallowances, as appropriate) in respect of the following three types of expenses-

- The business use of a home.
- Premises used mainly for business but also as a home.
- Cost of motoring.

Application of the fixed rate deductions / disallowances

The fixed rate expense rules are available for income tax but not for corporation tax. In more detail-

- The rules are available for sole traders, partnerships and trustees.
- The rules are not available for companies or for partnerships where not all the partners are individuals.
- The use of these rules is optional.

Use of home for business purposes

The fixed rate of deduction, per month, is given by the following table-

<i>Hours worked</i>	<i>Deduction</i>
25 or more	£10
51 or more	£18
101 or more	£26

Points to note are-

- The hours worked are the number of working hours spent at the home by the trader or his employees.
- The amounts apply for each month, or part of a month.
- The annual deductible amount is the sum of the 12 monthly amounts, as the deduction could vary from month to month.

The fixed rate deduction means that it is not necessary to calculate actual costs.

Use of premises for both business and as a home

These rules apply-

- to expenses that mainly relate to the trade, but which are also used for private purposes,
- incurred on premises that are mainly used for trading purposes, but which are also used as a home.

Relevant examples would be guest houses, pubs or farmhouses.

The rules take the form of allowing for tax purposes the whole of the relevant expenses less the disallowed monthly amounts in the following table-

Occupants	Disallowed
1	£350
2	£500
3 or more	£650

Points to note are-

- The number of occupants is the number of individuals who occupy or stay at the premises. All occupants count for these purposes, including children.
- The amounts apply for each month, or part of a month.
- The annual disallowable amount is the sum of the 12 monthly amounts, as the disallowance could vary from month to month.

The disallowance means that it is necessary to calculate actual costs.

Illustration

By way of an illustration, consider a hotel with accommodation in which the hotelier, his partner and one child reside. The expenses that might otherwise have needed to be apportioned might include say rent, insurance, heat and light. Under the simplified rules, the hotelier could choose, instead of apportioning the costs, to disallow the following annual amount to cover private use: £650 x 12, or £7,800.

Cost of motoring

The fixed deduction rules replace claims for business running costs and capital allowances with a mileage rate. The rules can apply to cars, goods vehicles and motor cycles. The mileage rate for cars and goods vehicles is given by the following table-

First 10,000 miles	45p
Excess	25p

Points to note are-

- The mileage rate is applied to business journeys.
- For a business with more than one vehicle, the first 10,000 miles relates to the total business mileage of all the vehicles, and does not apply individually to each vehicle.
- No capital allowances can be claimed in respect of the cost of vehicles where the fixed deduction rules are claimed.
- The single rate for motor cycles is 24p per mile, regardless of the cumulative business mileage.

Some general points to note in connection with the application of the vehicle rules are-

- Subject to the points below, the use of the vehicle fixed deduction scheme is optional, and a separate choice can be made in respect of each vehicle.

- The continuing use of the scheme in respect of a vehicle is required once it has first been used.
- The scheme is not available for any vehicle where a claim has previously been made for the Annual Investment Allowance or a First Year Allowance for the capital cost of the vehicle.
- The scheme is not available for a vehicle where the capital cost on acquisition was previously claimed under the cash basis.
- The mileage rate covers the costs of buying, insuring, maintaining and running the vehicle, including fuel. It does not cover tolls, congestion charges or parking costs.

General points

Some general points to note are-

- A business may choose separately to adopt any or all of these three rules; adoption of one of the rules does not imply adoption of the others.
- Adoption of a rule for a tax year does not require its use for subsequent years, with the exception of vehicle expenditure.
- There is no claim or election associated with the use of these rules.
- The flat rate for premises covers all household goods and services, utilities and subsistence costs. It does not cover mortgage interest, rent or council tax, which will continue to require an appropriate apportionment.

Legislation

- ITTOIA 2005 s94D-I

Commentary

- Simons Taxes B2.439A
 - HMRC Business Income Manual BIM75000
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