

Fixed rate expenses

Legislation has just passed through Parliament which allows the use of 'simplified' fixed rate adjustments to the profit figure used to calculate income tax liabilities. The use of fixed rate adjustments is optional but you may find the use of some of these rates makes record keeping a little easier. You may also find a larger tax deduction is available compared to the use of actual costs.

Anyone who is self employed can use the fixed rates. Partnerships can also use them (as long as all the members of the partnership are individuals).

The fixed rates apply to:

- business mileage (rather than deductions for the actual costs of purchasing, maintaining and running a motor vehicle or motorcycle);
- a fixed rate to calculate expenses relating to the business use of home; and
- a banded rate to calculate the adjustment for private use of business premises.

The fixed rates do not have to be used for all these areas. For example, you can use business mileage rates but calculate tax deductible expenses for the business use of the home on an actual basis.

The fixed rates apply for the current tax year 2013/14. So, a decision can be made to use the rates when the tax return for this year is submitted in 2014 but you may wish to consider whether you want to use them now as it can affect the business records you keep.

Business mileage

Businesses can calculate allowable expenditure on motor vehicles using a flat rate based on mileage. The rates are:

Cars and vans	
Up to 10,000 miles	45p per mile
Over 10,000 miles	25p per mile
Motorcycles	24p per mile

If capital allowances have been claimed on the vehicle, the flat rate cannot be used. This will be an important consideration particularly if a van is used as that may receive a full tax write off in the year of purchase if the Annual Investment Allowance is not otherwise used up by other expenditure on plant. In the case of a car, key considerations will be:

- expected mileage on business;
- how much depreciation in value do you expect to suffer;
- how many miles per gallon are achieved in the car.

The important point is that the rates given are not dependent on the value and fuel efficiency of the car.

Once the flat rate is used for a particular vehicle, the same method must continue to be used as long as the vehicle remains in the business. Actual costs incurred will not then need to be recorded but certain costs should still be recorded as they may be allowable. For example, costs that are specific to a particular journey such as tolls, congestion charges and parking fees will be allowable if they are incurred whilst travelling on business.

If a loan has been taken out to purchase a vehicle, the business proportion of the interest will be allowable.

Use of home for business

Some tax relief is available if part of a home is used part of the time solely for the purpose of the business. A flat rate deduction can be claimed instead of recording the actual expenditure on running a home (such as heat, light power, telephone and broadband costs) and calculating a business use proportion. The business use proportion may be quite low and thus give a limited amount of relief. However, HMRC has recently stated that where private use of telephone/internet costs does not form a significant proportion of the service use, they will accept that the full amount of expenditure can be claimed.

If the flat rate is chosen the rates are:

Number of hours worked per month	Allowable amount per month
25 or more	£10
51 or more	£18
101 or more	£26

The 'number of hours worked' 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.

If you choose the flat rate for a tax year, you can revert to the actual costs basis in another tax year.

Private use of business premises

Where a person uses premises both as a home and as business premises eg a hotel or a guest house, the total expenses of the property need to be adjusted for the private use. A fixed scale can be used for the private use so that the business element of the expenses will be relieved. Only premises used mainly for the purposes of carrying on a trade will qualify.

The deduction against profits is the amount of the actual expenses less the non-business use amount, which is the sum of the amounts below for each month, or part of a month, falling within the period.

Number of relevant occupants	Flat rate per month
1	£350
2	£500
3 or more	£650

The flat rate amount is based on how many people (including children) use the business premises each month or part of a month as a private home.

The flat rate includes all household goods and services, food and non-alcoholic drinks and utilities. It does not include mortgage interest, rent of the premises, council tax or rates. A reasonable apportionment of these expenses should be made based on the extent of the private occupation of the premises.

Existing use of a 'board and lodging' agreement

Historically, some HMRC offices have entered into 'board and lodging' agreements with small hotel and guest house businesses. As some businesses currently using these agreements may need time to prepare for the change, any business which has used a previous agreement with HMRC for the 2012/13 tax year can also use it for the 2013/14 tax year.

Please remember that the fixed rates do not have to be used for all these areas. You have time to consider whether you wish to use any of these rates and we will help you to make that decision when we are considering the submission of your tax return in 2014. Please contact us if you require any further information or advice.