



Guide

Self Assessment: your questions answered

Sage

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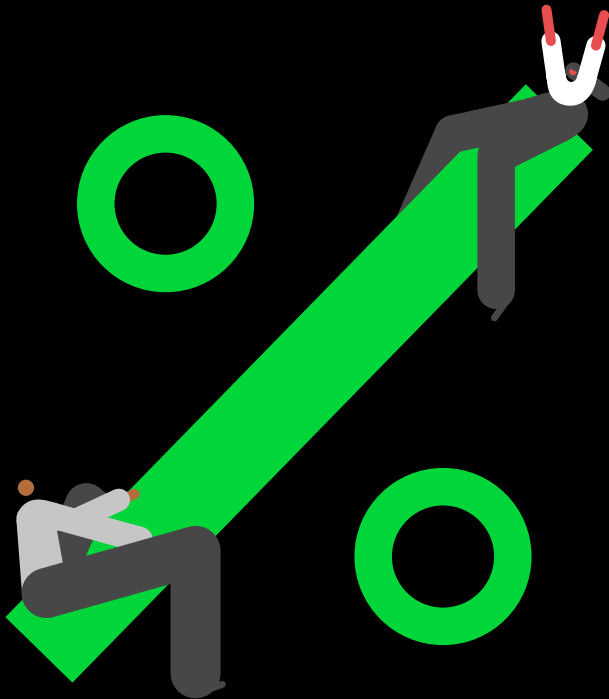
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Getting ready for Self Assessment

If you're a self-employed taxpayer, you must file a Self Assessment tax return each year with HMRC, in order to calculate and pay the tax you owe.

Most self-employed taxpayers choose to do this online through the HMRC online service. The online filing deadline is 31 January, whereas, if you choose to file in hard-copy format, the deadline is 31 October.

[Learn more about Self Assessment](#)

What if I submit my tax return late?

If you're late in filing, but file within three months of the filing date, HMRC will charge you a £100 penalty. If you're more than three months late, or you pay your tax bill late, the penalty will be higher.

Who's classed as self-employed?

A person is self-employed if they run their business for themselves. They're often referred to as 'sole traders' and the business is not a limited company.



What should I consider when doing my Self Assessment tax return?

When it comes to getting your Self Assessment tax return ready to send to HMRC, an important consideration is what you can and can't claim. Although this is not an exhaustive guide, it does detail the expenses that you can include in your tax return, the expenses that you can't, and how accounting software can help you to easily track your income, costs, and paperwork.

If you have any questions about your tax returns and the expenses you can (or can't) claim, it's worth speaking to an accountant or a tax adviser.

What you can claim

When calculating your tax liability, you can claim deductions for expenses relating to the running of your business.

These expenses appear as costs in your business accounts, and will be deducted from the income that you pay tax on. To make sure these costs are recorded accurately, it helps to use a reliable accounting software package and record transactions on a regular basis. Also, accrual or invoice-based accounting, as opposed to cash-based, is the most common form of accounting for HMRC purposes.



The law states you must keep all your receipts and documentation for at least 5 years after the 31 January submission deadline. They're also useful in case HMRC request a review or if you need to refer to them for clarification.

The overriding principle of allowable expenses is that they must relate to the business and if an expense incurred is both for business and personal use, then only the percentage that applies to the business may be claimed as a tax-deductible expense.

Allowable expenses can:



Employees' pay



Travel expenses



Professional fees



Financial charges



Rent, utilities,
and stationery

Employees' pay

You can claim expenses for employing other people, including salaries, bonuses, recruitment costs, or insurance. However, you can't claim for any payments to yourself from the business.

Travel expenses

The simplified expenses method calculates expenses for buying and running a vehicle (i.e. insurance, repairs, servicing, fuel, etc.) as a flat rate based on mileage. This calculation can be used for cars (except those designed for commercial use, i.e. black cabs, hackney carriages or dual control driving instructors' cars), goods vehicles (i.e. vans), and motorcycles. You do not have to use flat rates for all your vehicles, but if you do choose to, you must continue to do so as long as you use that vehicle for your business. Furthermore, if you use this flat rate, you cannot claim capital allowances.

Note: the simplified expenses method is an alternative to claiming the individual allowable expenses for individual components.

Also, any other business travel for work, including train tickets, flights, or hotels are allowable. However, commuting cost—that's travelling between work and home—isn't an allowable expense.

Professional fees

Any professional fees relating to the business, including accountancy, legal, marketing, or consulting fees are allowable. If you're required to be a member of a professional trade body as part of your work and must pay annual fees, the fees are also allowable expenses.

Financial charges

You can claim back the interest charged on any business loans, but you can't claim the actual repayment. You can also claim back on financial charges such as overdrafts, banking fees, credit card charges, or currency conversion relating to your business.



If your business bank account is separate from your personal account, it's much easier to track these charges, and is highly recommended.

Rent, utilities, and stationery

Any costs relating to the running of your business, including rent, utilities, and stationery supplies are allowable expenses.

If you rent a space specifically for your business, this is an allowable expense, as are all utility bills related to the premises. However, if you work from home, only the rent and utility bills that relate to the running of the business are allowable. For example, in terms of rent, if 10% of your square footage is used for office space, you only claim 10% of your rent as a business expense.

Regardless of whether the property is your home, and you work from home, or if it's business premises, you cannot claim mortgage repayments as allowable expenses, but you may be able to claim some or all of the interest element of the repayments. However, if you're working from home, it's not a straightforward process due to apportionment—we suggest seeking professional advice.

In terms of utility bills (including electricity, broadband, and mobile phone expenses), the same principles apply. The portion of bills that relate to your time spent working are allowable. For example, there are 168 hours in a week, and if you spend 40 hours working online, then you can claim 24% of broadband charges as an expense.

You may also need to consider the potential impact on other taxes of claims for use of home as business costs. For example, a claim for exemption from Capital Gains Tax as a principal private residence when you sell your home, may be affected. You should seek further professional advice when considering claims for use of home.

Other allowable business expenses:



The purchase of goods for resale.



Office, property, and equipment costs.



Leasing payments on vehicles or machinery used in the business.

[Learn more about Self Assessment](#)



What you can't claim

There are certain expenses that you might think you can claim but, in fact, you can't—such as money (or goods/services) you take from the business for your own use.

These expenses often cause confusion and include:

- Clothing costs.
- Business entertainment costs.

Clothing

Only clothing such as personal protective equipment (PPE), uniform and costumes (for actors or entertainers) is allowable as a business expense. You cannot claim for everyday clothing, even if you wear it for work.

Business entertainment

You cannot usually claim for the costs of entertaining clients such as food, drinks, customer gifts, and other forms of entertainment.

If your employee incurs expenses entertaining a client, the employee can be reimbursed on a tax-free basis, as long as the expenses are fully vouched and reasonable. Staff entertainment expenses such as for Christmas parties are allowable, as long as they are within the regulations.



Capital expenses

It's important to understand the difference between capital expenses and other business costs, as they're treated differently, but both can reduce the taxable profits of the business.

Capital expenses are normally one-off purchases of long-term assets that you keep to use in your business. These assets, categorised as 'plant and machinery,' include equipment, machinery and vehicles. These costs are not included in your business's day-to-day running costs.

With capital expenses, a business can claim a capital allowance on the capital expenditure. Capital allowances are calculated based on the value of the asset and allow you to deduct the value, either in part or in full, depending on which capital allowance is used, from your profits, before you pay tax.

How Sage Accounting can help your business



Sage Accounting helps you keep track of your income, costs, and paperwork. By the time it comes to completing your Self Assessment tax return, you will have your figures and records in one place, so you can easily and accurately breeze through your submission.

You can capture your earnings and costs as you go throughout the year to save you from having to plough through endless, confusing emails, bank statements, and paper files at the last minute to find the information you or your accountant need and make sense of it.

With all your information flowing into Sage Accounting, your software can do the number crunching for you, so you're ahead at tax time and you can easily work out how much tax you need to pay.

Whatever you're claiming for, the important thing is to get organised and submit your tax return before the deadline.

[Discover how Sage Accounting can help you stay on top of your numbers](#)



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