Section 7:
The Really Useful Bits

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Disclaimer

This guide is designed to alert you to some of the major issues you should be considering. It is not a replacement for professional advice tailored to your precise needs and circumstances.

You should always seek the advice of a suitably qualified professional before acting on any of the advice.

And if you would like to speak to us about any of the issues covered in this guide, please feel free to give us a call or drop us an email.

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7 Introduction

We cover a lot of issues in the guide and we strongly recommend you take the time to review it.

However, this section gives a brief look at the main issues which affect most business owners.

7.1 VAT

VAT is a complex subject and you need to be careful that you account for it correctly.

The list below covers some of the common areas which have VAT implications you ought to be aware of – please note that this list is by no means exhaustive.

The reference to the detailed section is shown in brackets after each section heading – please refer to these sections for further information as to the rules for each class of expenditure.

7.1.1 VAT on cars (Section 2.6.1)

Business cars	Not allowable unless is for a car purely for business use eg pool car or taxis.
VAT on vans	Recoverable.
Car leasing	50% allowable if car is used for business purposes unless it is used exclusively for business (and not available for private use) in which case you can claim 100%. You can also claim 100% if the car is for use in a chauffeur/taxi service business, a driving school or a car hire business.
VAT on repairs	Allowable as long as the vehicle is used for some business use and the invoices are in the company's name and paid by the company.

7.1.2 VAT on fuel (Section 2.6.2)

There are four options for reclaiming the VAT on fuel:

1) Reclaim 100% of the VAT – but all the fuel must have been used for business purposes.

2) Reclaim all of the VAT and pay VAT on the proportion of fuel not used for business by applying a 'fuel scale charge' to your quarterly tax return.

3) Reclaim the business proportion of the VAT.

4) Not reclaim any VAT.

7.1.3 VAT on parking (Section 2.6.3)

Multi-storey car parks include VAT at 20%.

On-street parking meters and pay-and-display car parks are not subject to VAT.

7.1.4 VAT on staff business expenses (Section 2.6.4)

VAT is allowable on any expenses incurred by staff whilst on business.

7.1.5 VAT on business entertaining (Section 2.6.5)

VAT on business entertaining is not allowable.

7.1.6 VAT on staff entertaining (Section 2.6.6)

VAT on staff entertaining is allowable as long as it relates to the staff themselves. VAT on guests eg at the Christmas party may not be allowable.

7.2 Non-allowable for business tax (Section 4.2)

There are certain areas of expenditure which would be considered legitimate business expense and need to be included within your profit and loss in order to reflect the true profit made, but which are disallowed in order to calculate your taxable profit.

It is therefore important that you identify these separately so that we can adjust your business tax accordingly.

1) Non-staff entertaining

   This is not allowable as a deduction for business tax.

2) Personal clothing (not protective or specialist)

   Expenditure relating to clothing which would make you or your staff recognisable as wearing a uniform outside of work is allowable.

   All other clothing is not allowable.

   If you provide your staff with clothes which aren't considered to be a uniform, then they will be taxed on the cost of the clothing personally as a benefit in kind and your business will have to pay employer's NI on the cost. But the business will be able to claim a deduction in its taxable profit for both the cost of the clothing and the NI.

3) Parking fines

   If you pay for your employees' parking fines, then your employees will be taxed on the cost of the fines as a benefit in kind and your business will have to pay employer's NI on the cost.

   However the business will be able to claim a deduction in its taxable profit for both the cost of the fines and the NI.

   Parking fines for partners or sole traders are disallowable.

4) HMRC fines and penalties

HMRC fines or penalties are not allowable.

Interest charges on late filing is allowable if you are a limited company but not allowable if you are a sole trader or partnership.

5) Depreciation

The depreciation charge put through your books when calculating your accounting profit is not allowable for tax.

Instead the taxman will allow you to deduct something called capital allowances

6) Working lunches

Working lunches will be allowable if it can be proved that there is little or no social aspect to the lunch.

HMRC are likely to assume that a working lunch in a pub has social ramifications and therefore is not allowable.

7) Corporate gifts

Corporate gifts are allowable as long as they carry a conspicuous advertisement, are not food or drink and cost less than £50 per recipient.

7.3 Working from home (Section 4.2.8)

Working from home has always been popular but what you can charge your business for this has often been the subject of some debate.

Well, you have two options:

1) You can claim a fixed deduction using HMRC's rates (which aren't very generous) or
2) You can charge a reasonable percentage of your home costs.

Section 4.2.8 takes you through how to calculate what would be a reasonable percentage of your home costs for business use.

Be aware, if you are a limited company you will need an agreement with the company as to when it can use your home office and you will also need to declare this income on your personal tax return.

7.4 Taking money out of your limited company

Normally the most tax efficient method of profit extraction is a mixture of a salary equivalent to the Primary Class 1 NIC threshold (£7,956 per annum for 2014/15) together with dividends.

The advantage of paying a salary equivalent to the personal allowance is that you are deemed to make NI contributions and are therefore entitled to various state benefits (Section 5.4.1).

By way of a recap we recommend the following "good housekeeping" so you don't fall foul of any nasty tax implications when you take money out of the company:

1) Make sure you keep your debt to the company at less than £10,000 or you could trigger a personal tax charge (section 5.4.2).

2) Wherever possible make sure you debt to the company is repaid within 9 months after the company's accounting year end so as to avoid an additional Corporation tax charge (section 5.4.2).

3) Ensure any dividend payments are properly minuted and tax vouchers prepared (section 5.4.3)

4) Watch out for illegal dividends (5.4.3).