

Travelling and subsistence expenditure incurred by the self-employed or by employees can give rise to many problems.

This briefing highlights the main areas to consider in deciding whether tax relief is available on these expenses.

Self-employed

The general rule is that in calculating the taxable profits for a self-employed person no deduction is allowed for any expenses that have not been incurred wholly and exclusively for the purposes of the trade or profession. However, a deduction can be made for any identifiable proportion or part of an expense which is incurred wholly and exclusively for the purposes of the trade or profession. In this situation, where travel expenditure is partly for business and partly for private purposes, an appropriate amount relating to the private portion would be disallowed in determining taxable income.

It is essential to keep a record of business mileage and all expenses incurred so that any claim for tax relief is adequately supported when completing the end of year accounts and/or tax return.

Travel between home and work

If a self-employed person has a base of operations that is separate to their home, then the cost of travelling between home and that base will be treated as ordinary commuting and therefore is not tax deductible.

However, where a person's base of operations is at their home then the cost of travelling between their home and where work is carried out should be allowable. Difficulties can arise in determining whether there is a specific 'base of operations' and where this is. Claims for relief which are later challenged by HMRC could prove costly. It would certainly appear that HMRC are paying more attention to this area as a number of disputes between them and self-employed persons have been presented over the last 6 months at the First Tier Tax Tribunal. Therefore the crucial point is to establish precisely where the base of operations is. Each case will clearly depend on its own merits but in recent cases the fact that business records were kept and written up at home, that tools of the trade and equipment were kept at home and that new work was sourced from home were all contributing factors taken into account in determining where the base of operations was.



Simplified claim



HMRC allow some self-employed persons to use fixed mileage rates to calculate their business travel costs as an easier option rather than having to keep records of all expenditure incurred. This option is available to persons whose annual turnover is less than the VAT registration threshold at the time the vehicle is first used for the business.

The fixed mileage rate is based on the statutory rates which, until 5 April 2011, was set at 40p per business mile for cars and vans for the first 10,000 business miles pa with any additional mileage claimed at 25p. The first statutory rate has increased to 45p from 6 April 2011 and it is assumed that this increase will also apply for this self-employed option but no confirmation of this has yet been published. These rates cover typical running costs such as fuel, maintenance, road tax and insurance etc and include an element of depreciation (capital allowances) in respect of the cost of the vehicle. The only additional

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expenses that can generally be claimed would be the business element of any interest charged on a loan used to purchase the vehicle, parking charges, motorway toll fees and congestion charges.

This basis has to be applied consistently from year to year so that any change to claiming expenses on an actual basis takes place only when one vehicle is replaced with another.

The option can be extended to business mileage incurred on motorcycles and cycles but at lower rates.

Subsistence and accommodation expenses



HMRC's view is that the cost of meals taken away from the place of business is not in general an allowable business expense as everyone must eat in order to live. Note that this is different to the treatment of employees (see our briefing note for employers).

However, they do accept that extra allowable costs may be incurred where a business is by its nature itinerant (eg commercial travellers) or where occasional business journeys outside the normal pattern are made.

Where a business trip requires a stay away from home the hotel accommodation and reasonable overnight subsistence costs will be allowable.

Where the base of operations is away from home, and overnight accommodation and subsistence is incurred to allow the person to be at or close to the base of operations, then the expenditure will not be allowable.

In summary

If travelling and subsistence expenses are incorrectly claimed it may be some years before HMRC review your tax returns. An overclaim could therefore lead to additional tax, interest and possible penalties. As a self-employed person we can help you decide what you can legitimately claim against your taxable profits.

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