Self-employed earnings – permitted expenses

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Introduction

The reporting of self-employed earnings for Universal Credit is closely aligned to the new cash basis accounting system operated by HMRC for small businesses. This allows claimants to keep similar records for Universal Credit and tax self-assessment purposes.

In each assessment period, claimants will report the actual total amount of payments made into the business, and also all money paid out, including:

- Income Tax
- National Insurance
- permitted business expenses
- relievable pension

This gives a net profit figure which is treated as the self-employed earnings total in the Universal Credit calculation.

All permitted expenses must have been incurred reasonably. This means that they must be appropriate to the business, necessary to the business, and not excessive.

Expense that have been incurred for more than one purpose, for example the purchase of a laptop, which is used for both business and personal use, can be reported as a permitted expense only if the main use will be for purpose of the business.

Permitted expenses

These include:

- office costs, for example, stationery or phone bills
- travel costs, for example, fuel, parking, train or bus fares
- clothing expenses, for example, uniforms or protective clothing
- staff costs, for example, wages or subcontractor costs
- equipment (purchase, hire or repair) stock or raw materials
- financial costs, for example, insurance or bank charges
- costs of business premises, for example, heating, lighting, rent, business rates
- advertising or marketing, for example, website costs

These are examples, not a complete list

Payment in kind

Self-employed claimants must also report any payment in kind that they may receive. They must also specify the amount they would usually have charged for the product or service provided (and for which the payment in kind has been accepted).

Example:

A claimant who is a self-employed hairdresser gives a customer a haircut for which they ordinarily charge £15 but accepts a food parcel as payment in kind. They must report £15 as the 'cash in', and no value is given to the food parcel.

Payment of interest on business loans

If a claimant has a loan or loans specifically for their business, they can make a deduction of up to £41 in total from their self-employed earnings in each assessment period, as an allowable expense. This deduction must be for interest repayments only relating to the business loan.

Travel costs

Travel costs are a legitimate expense when they relate directly to the running of the business, for example train tickets to meet customers or suppliers in another town would be allowable, but everyday travel costs to the claimant's place of work would not.

Any expenses incurred as a result of entertaining (for business purposes) must be excluded.

Types of allowable flat rate deductions

In line with HMRC regulations, flat rate deductions are allowable when used for various business expenses instead of apportioning costs. These include:

- mileage allowance for vehicles
- use of home for business
- use of business premises as home

Use of vehicles

Claimants who use a car (including operating a mini-cab) for their business must use only the following flat rate mileage to report its business running costs:

- van or other motor vehicles:
  - 45 pence per mile for the first 833 miles in each assessment period, and
  - 25 pence per mile for every mile over 833 miles in each assessment period
- Motorcycle - 24 pence per mile

No other deductions for the use or buying of a car can be included as a permitted expense.

Claimants using a van, motorcycle or other motor vehicle designed mainly for business and not of a type commonly used for private use (such as a black-cab), can choose to include the actual costs of buying and running it in their permitted expenses, or to use the following flat rates:

- van or other motor vehicles:
  - 45 pence per mile for the first 833 miles in each assessment period, and
  - 25 pence per mile for every mile over 833 miles in each assessment period

- Motorcycle - 24 pence per mile

Using the home for business use

Claimants may use part of their home for self-employed activities, for example:
- providing services to a customer, for example as a hairdresser
- general business administration essential for the daily operation of the business, including filing invoices, recording receipts and payments, and stock taking
- action to secure business, such as sales and marketing

Instead of separating business and personal costs, such as telephone, lighting and heating, a flat rate amount can be deducted in each assessment period. This flat rate amount is based on the number of hours spent in each assessment period on income generating activities related to the trade, profession or vocation. This is as follows:

- £10 for at least 25 hours, but no more than 50 hours
- £18 for more than 50 hours, but no more than 100 hours
- £26 for more than 100 hours

This excludes any hours claimants use their home for:
- storage
- completing tax returns for HMRC
- self-reporting earnings for Universal Credit
- being on call
- being available to carry out work

Personal use of business premises

Claimants who occupy premises which are used by them mainly for their self-employed work, but also live in it as their home, for example a pub landlord, can deduct as permitted expenses the actual amounts that would be allowed if the premises were used solely for that self-employed work. This can then be reduced by the following amounts (in an assessment period) depending on how many people also live on the premises:

- £350 for one person
- £500 for 2 people
- £650 for more than 2 people

Example:

Felix is a pub landlord who lives above the pub with their husband and two children. He reports expenses of £3,500 for their latest Universal Credit assessment period.
Felix decides that trying to apportion these expenses between the pub and home upstairs is not possible but is not sure what to claim. The decision maker decides that the permitted expenses should be reduced by £650 because there are three or more people occupying the premises.

Expenses which are not deductible

The following costs are not allowable as permitted expenses:

- expenditure on non-depreciating assets, including property, shares, or other assets held for investment purposes
- any loss incurred in a previous assessment period
- expenses for business entertainment
- capital repayments on a loan

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