Self-employed earnings – permitted expenses

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Introduction

Self-employed earnings are reported on a cash-in/cash-out basis for Universal Credit. This is closely aligned with the simplified cash basis accounting system operated by His Majesty's Revenue and Customs (HMRC) for small businesses and allows claimants to keep similar records for Universal Credit and tax self-assessment purposes.

At the end of each assessment period, claimants will report the actual total amount of payments made into the business and also all money paid out for business purposes. This includes:

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

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

Permitted expenses

All permitted expenses must have been incurred wholly, exclusively and reasonably for the purposes of the business. This means that they must be:

- appropriate to the business
- necessary to the business

- not excessive

If costs have been incurred for both business and private use, only the proportion that is wholly attributable to the business can be deducted, for example - if a laptop is purchased for both business and personal use, and will be used specifically for the business 50% of the time, then 50% of the cost can be deducted as an expense.

Permitted expenses include:

- office costs, for example, stationery or phone bills
- travel costs, excluding fines and travel between home and the regular place of work, for example – fuel (see Use of vehicles), parking, tolls or congestion fees, train or bus fares
- clothing expenses, for example - uniforms or protective clothing
- staff costs, for example – wages, before any deductions or subcontractor costs
- equipment, purchase, hire or repair
- stock or raw materials
- financial costs, for example - accountancy or legal fees for running the business, insurance, bank charges, see Payment of interest on business loans
- costs of business premises, for example - heating, lighting, rent, water charges, cleaning of premises, 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.

Tips and Gratuities

Tips and gratuities that are taken for a service provided, for example as a hairdresser or taxi driver, must be included as a payment in to the business.

Payment of interest on business loans

If a claimant has a loan or loans specifically for their business, they can make a deduction for payment of interest, (not capital) of up to a combined maximum of £41 in each assessment period.

Value Added Tax

Self-employed claimants who are registered for Value Added Tax (VAT) can choose how they treat VAT receipts in their cash basis accounting. They can either report earnings:

- inclusive of VAT and deduct a VAT payment to His Majesty's Revenue and Customs

- exclusive of VAT and not permit a deduction of a VAT payment to HMRC

Claimants are expected to be consistent with their choice of how they treat VAT inclusive and exclusive in each assessment period.

Payments of VAT are a permitted deduction from self-employed earnings. Any repayments of VAT by HMRC are treated as a payment in to the business.

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.

However, sub-contractors can claim home to site travel expenses where they work at two or more sites during the year.

Types of allowable flat rate deductions

In line with to His Majesty's Revenue and Customs regulations, flat rate deductions are allowable when used for various business expenses instead of apportioning costs. These include:

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

The claimant cannot use a combination of actual and flat rate costs for the same purpose within the same assessment period.

Use of vehicles

Claimants who use a **car** that has not been specially adapted for their business (including the operating of a mini-cab) **must use the flat rate mileage deductions** (detailed below), in respect of all business costs in the assessment period for buying, hiring, running or maintaining the vehicle. This includes, for example, costs such as fuel, servicing, repairs, insurance, road tax and Ministry of Transport test (MOT).

Claimants using a van, motorcycle or other motor vehicle designed mainly for business (such as a black-cab or driving school car fitted with dual controls) and not of a type commonly employed for private use, 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

For all vehicles, including cars, no deduction can be claimed for fines and travel between the home and the regular place of work.

For sub-contractors, a deduction for home to site travel expenses is allowed where they work at two or more sites during the year.

Business costs that are not incurred directly for the purchase or use of the vehicle can be deducted separately in addition to flat rate deductions, for example:

- incidental costs for a particular business journey such as tolls, congestion charges and parking fees
- mini-cab radio hire charges where they are separate and distinct from any vehicle hire costs
- fees for business specific licences such as that needed to drive a cab

Using the home for business

Claimants may use part of their home for income generating activities related to their self-employment, this includes:

- 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 or trade 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 the claimant uses their home for activities that are not generating income, for example:
- storage
- completing tax returns for His Majesty's Revenue and Customs
- self-reporting earnings for Universal Credit
- being on call
- being available to carry-out work

Personal use of business premises

Some claimants occupy premises which are used by them mainly for their self-employed work but are also their home, for example a pub landlord.

These claimants must calculate the actual amounts that would be allowed as business expenses if the premises were used solely for that self-employed work.

They can then either:

- work out what proportion of each expense is wholly for business use, for example - what share of the electricity, gas, water and so on is for business and what is for personal use

- they can reduce the actual business expenses incurred by the following, in an assessment period, depending on how many people 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 his wife and two children. He reports expenses of £3,500 for their latest Universal Credit assessment period.

Rather than apportion these expenses between the pub and the home upstairs, Felix chooses to use the flat rate deduction above and reduces the permitted expenses claimed by £650 because there are three people occupying the premises.

Business partnerships and directors

Claimants who are in a business partnership must report their share of the total money received by and paid out of the business.

A company director may pay themselves a salary using the pay as you earn system but must also declare any additional self-employed earnings generated by their business on a cash-in and cash-out basis. Business deductions must be incurred reasonably, wholly and exclusively for the purpose of the business, see Companies and directors – gainful self-employment.

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