

Self-employment, Income and expenses: permitted expenses: Guidance

Contents

Introduction
Permitted expenses
Non-permitted expenses
Payment of interest on business loans
Value Added Tax
Trading
Travel expenses
Use of vehicles
Using the home for business
Calculating actual business costs if working from home
Personal use of business premises
Business partnerships and directors

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 HM 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, the claimant must 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
- pension contributions paid into a registered pension scheme

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 or trade within the current assessment period. 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, 50% of the cost can then be deducted as an expense).

Permitted expenses include:

- office costs (for example, stationery or phone bills)
- 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 running a business premises (for example, premises that are separate to and not associated with the costs of any personal residential premises) and includes heating, lighting, rent, water charges, cleaning of premises and business rates
- the proportion of costs relating to the running of the business from a home address (heating, electricity, internet and telephone use and rent), see Using the Home for Business
- advertising or marketing (for example, website costs)
- training and refresher courses that would help improve current skills relating to the current business

These are examples and not a complete list.

Any business expense must be incurred only by the person making the claim and reimbursement for expenses paid by family members is not permitted.

If requested, claimants must provide evidence of expenses (for example, a receipt for the actual amount of expenses being claimed) in order for these to be allowed.

Non-permitted expenses

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
- normal clothing costs, even if it is worn for work,
- personal grooming including haircuts and make up
- staff expenses for carers or domestic help such as a nanny or gardener
- wages paid to a business partner
- commuting between the claimant's home and normal place of business
- personal or non-business travel costs
- penalties (for example, parking fines)

Claimants cannot claim for training courses that help them to:

- start a new business
- expand into new areas of business

This list is not exhaustive.

Claimants cannot claim business expenses for:

- assets that do not lose their value over time, such as property or shares
- event hospitality or entertaining clients, suppliers or customers
- donations to charity
- membership fees not related to their business
- union membership fees

Credit Card Payments

Claimants can report permitted expenses paid for using a credit card in the assessment period in which the expenses were incurred.

This must only be accepted if the credit card is used exclusively for business use and the expenses are clear and relevant permitted business expenses.

The claimant cannot report any repayments associated with those expenses.

Gifts

Gifts unconnected to the self-employment (for example, on personal grounds), must not be included in the actual receipts of 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 (but not capital) up to a combined maximum of £41 in each assessment period. This will apply to business loans and credit cards.

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 report earnings either:

- inclusive of VAT and deduct a VAT payment to HM Revenue and Customs (HMRC) - this means that they submit income that includes VAT which is added to products or services and when they make a payment of VAT to HMRC, this can be deducted as an expense
- exclusive of VAT and not permit a deduction of a VAT payment to HMRC - this means that they submit income which excludes VAT and when they make a payment of VAT to HMRC, this cannot be deducted as an expense

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 into the business.

Tax, National Insurance, and pension contributions must reflect actual payments made during the monthly reporting period, not estimates.

Trading

A claimant is likely to be trading if they

- sell regularly to make a profit
- make goods and items to sell for profit
- sell online, at car boot sales or through classified adverts on a regular basis
- earn commission from selling goods for other people
- are paid for a service they provide

The claimant must report all earnings from trading to DWP (including those received on an online platform) at the end of each assessment period, regardless of the amount.

Claimants who sell occasionally and are not trading (for example, money received from selling personal items on eBay, Vinted or similar platforms) are not required to report this as earnings. This income will be treated as capital and is subject to Universal Credit capital limits.

However, claimants who trade on online platforms such as eBay or Vinted are required to report this as self-employed earnings.

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.

Any travel costs declared must have been paid within the assessment period the claimant is completing the To-do for.

Simplified expenses (Flat rate)

Claimants can avoid using complex calculations to work out their business expenses by using [simplified expenses](#).

Simplified expenses are flat rates that can be used for:

- vehicles

- working from home
- living on their business premises

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

Travel expenses to a place of work or business

Claimants are not permitted to claim continuing travel costs to their normal place of work or business premises.

However, they may be eligible to claim travel expenses as part of their business activity when providing services for customers (for example, if a gym instructor travels from their usual gym base to a clients residence or if they travel directly from their home to provide services within their usual work area, these travel expenses can be claimed):

- **allowable travel expenses:** journeys between clients at different locations or within the usual work area (for example, clients all based within the West Midlands) or journeys from home directly to a client's residence provided that it does not become a long-term regular arrangement, see 'Long-term clients' below
- **non-allowable travel expenses:** commutes from home to a fixed workplace or travel from home to a location outside the usual work area (for example, from the West Midlands to the East Midlands)
- **long-term clients:** travel expenses may be claimed if visits to a client are conducted regularly but only for a temporary duration – if the arrangement becomes permanent or long-term, the costs are no longer allowable expenses (long-term arrangements must be treated on a case-by-case and factors that may be considered when deciding if they are allowable are defined end dates for the work, regularity and how long the claimant has been working in this location)

Use of vehicles

This section refers to the use of both electric and non-electric (for example, petrol or diesel) vehicles.

Cars and minicabs

Expenses for using a car or minicab for business travel can be claimed if the vehicle is not specially adapted for business use. If claimants do claim these expenses, they **must** use [simplified expense](#) (a flat rate).

The claimant cannot claim expenses for the purchase, lease or acquisition of a car or minicab if the vehicle is not specially adapted for business use. However, they can claim for costs that are not a direct result of the purchase or use of the vehicle, for example:

- minicab radio hire charges if they are separate from vehicle hire costs
- fees for business-specific licences such as the licence to drive a minicab.

These actual costs can be claimed in addition to any simplified expenses. The expenses must have been paid within the assessment period the claimant is completing the declaration for.

If the claimant offers transportation services (for example, taxi driver or courier) they may be able to claim airport and congestion charges as expenses.

Other vehicles

Expenses for other vehicles such as a motorbike, scooter or a vehicle that has been specially adapted for business use (such as a van, black cab or driving instructor dual-control car) can be claimed.

To claim expenses, the claimant can choose to use simplified expenses or actual costs. The expenses must have been paid within the assessment period the claimant is completing the declaration for.

Using simplified expenses (a flat rate) for car, vehicle and travel expenses

Simplified expenses are a way of calculating some business expenses using flat rates instead of working out actual business costs.

Claimants can use their online account to report the number of miles they have travelled for business that month. DWP will use a flat rate to calculate their costs:

For a car, van or other motor vehicle the flat rate is:

- 45 pence per mile for the first 833 miles
- 25 pence per mile for every mile over 833 miles

For motorbikes or scooters the flat rate is 24 pence per mile.

If the claimant uses the flat rate to record their car, vehicle or travel expenses, this includes all costs relating to their car, vehicle or travel for the month.

Expenses cannot be claimed for any actual costs (for example, fuel, servicing, repairs, car wash, vehicle insurance, road tax and MOT). These costs are included in the flat rate.

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.

Using the home for business

The following guidance details the two ways in which claimants can declare expenses relating to working from home. This relates solely to premises which were built as a residential dwelling but are being used by the claimant to conduct business.

For these cases, the claimant can declare either a simplified expense (flat rate) or a proportion of their actual costs as detailed below.

The claimant 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

This **does not** include any hours the claimant uses their home for activities that are not generating income, for example:

- storage
- completing tax returns for HM Revenue and Customs
- self-reporting earnings for Universal Credit
- being on call
- being available to carry-out work

Simplified expenses if working from home (flat rate)

Claimants can calculate their actual business costs or use a flat rate for these expenses.

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

Calculating actual business costs if working from home

Claimants may be able to claim a proportion of their costs as business expenses for things such as:

- heating
- electricity
- internet and telephone use
- rent

Claimants must determine a reasonable method of calculating the proportion of home costs incurred for business use by considering the number of rooms in their home that they use for business and the amount of time spent working from those rooms.

Potentially, the following spaces can be used for business purposes:

- kitchens
- living rooms
- bedrooms
- garages

Open-plan rooms are treated on a case-by-case basis (this depends on what is included within the open-plan space and how much of that space is allocated specifically for work purposes).

If the claimant uses their home address for their business and it is a significant proportion of the dwelling, they can approach their local authority or the Valuation Office who will assess whether they need to pay business rates. This tends to apply if the work area is a garage or outbuilding and not just a home office set up.

Example:

A claimant has four rooms in their home and uses one as an office only. Their electricity bill for the month is £100.00.

Assuming all the rooms in the home use equal amounts of electricity, £25.00 of this would be for the office (£100.00 divided by 4).

For each day in the month the claimant works from home, they could claim £0.83 as an allowable expense (£25.00 divided by 30).

Personal use of business premises

The guidance in this section relates to self-employed claimants who live in a premises built as a commercial premises.

Some claimants occupy premises which they use mainly for their self-employed work but is 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)
- reduce the actual business expenses incurred by the following amounts in the relevant 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 premises 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 expenses cannot be claimed for:

- lunch
- buying places of business
- any non-business use of business equipment

Claimants cannot claim the costs of:

- carers or domestic help (for example, nannies or gardeners)
- wages paid to a business partner

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 they 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.

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