

BUSINESS USE OF TELEPHONE, MOTOR AND HOUSEHOLD COSTS

In any enquiry or examination of business records, HM Revenue & Customs will require quantifiable evidence and calculations for the business proportion of expenditure on items that are also used privately. Most commonly, expenditure on telephone, motor and household running costs require particular attention.

Telephone

Unless you have a dedicated business telephone line, a calculation will be required to eliminate the private proportion of telecommunications costs.

With the advent of packaged contracts and pay-as-you-go, establishing the business element of telephone and other communications costs isn't very easy. It doesn't help that such issues are rarely tested in court because the sums are too small and in most cases, disputes are settled by negotiation so the outcome isn't something that can be referenced.

There is remarkably little guidance to be found anywhere on the HMRC website; the inspectors' manual says, "...you should approach the matter in a reasonable way and give an appropriate deduction that reflects the actual cost ... of business calls."

However the general advice is that if no attempt at calculation is shown, no deduction for business use will be allowed. Therefore you will need to do some form of computation. Each case is different so we can't give guidance in this help sheet. If necessary, we can help you in your particular circumstances.

Motor Costs

The Revenue allows the self employed* to use pence-per-mile allowances for motor costs (except for taxis or other businesses where the car is a direct part of the earnings). The rate is currently 45p for the first 10,000 business miles and 25p thereafter (motorbikes 24p for all miles). This figure is designed to include all running and depreciation costs (only HP interest is allowed as an additional expense).

In almost all cases, this figure is more generous than using the 'actual' basis after apportioning for private use.

In any case, in order to provide adequate evidence to support a calculation of the business use proportion, it would be essential to record the business mileage...so once you have done that, why not simply use the pence-per-mile allowance anyway? Certainly it saves us time and therefore reduces your accountancy costs!

Keep a small hard-backed notebook and a pen in your car and make sure you keep a record of date, mileage, destination and reason for each journey. Also note down the car's total mileage at the beginning and at the end of each year. The more technologically minded might like to set up a spreadsheet on a smartphone or whatever.

* Directors and employees using their own car for business use may use the same calculation

Note that you should still retain all the bills and receipts for fuel, servicing and all other running costs, even if they will not be analysed for the accounts themselves. They still provide evidence that will support your mileage claim and will therefore assist in any enquiries.

Use of Home as an Office

Sticking to the Revenue guidance will avoid any suggestion of liability to Capital Gains Tax on the part or parts of your home you use for business.

In short, do it their way and you will get a modest amount of tax relief – otherwise it's nothing.

The simplest way to carry out this computation is to add up the annual costs (as applicable) of:

- Gas
- Electric
- Solid Fuel
- Council Tax
- Contents Insurance
- Buildings Insurance
- Water Rate

Keep all the bills to support these amounts.

Then simply count up the number of principal rooms in the house (bedrooms, reception rooms, kitchen, bathroom etc). If there are seven and one is used exclusively for an office, then we simply divide the total of the household bills by 7. If a room is used partly for an office and partly as a bedroom, for example, then we would allow one half of one seventh.

You may have exceptional circumstances depending on your business, in which case we can of course adapt the calculation.

Alternatively, if your turnover is below the VAT threshold (and you are not voluntarily VAT-registered) you can calculate your allowable expenses using a flat rate based on the hours you work from home each month.

This means you don't have to work out the proportion of personal and business use for your home.

You can only use simplified expenses if you work for 25 hours or more a month from home. Use the monthly flat rates in the table below instead of your actual expenses.

Hours of business use per month Flat rate per month

25 to 50	£10
51 to 100	£18
101 and more	£26

Generally...

Inadequate evidence for business expenditure will always lead to it being disallowed on inspection.

However HMRC would not strenuously contest calculations for any of the above categories where the rest of the accounts are not disputed.

Guidance provided by:

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