

BUSINESS USE OF TELEPHONE, MOTOR AND HOUSEHOLD COSTS

(For self employment and partnerships ONLY)

HM Revenue & Customs (HMRC) require quantifiable evidence and calculations for the business use of expenditure on items that are also used privately. Most commonly, expenditure on telephone, motor and household running costs require particular attention in respect of the self-employed and partnerships.

Bear in mind that whatever your trade, profession or vocation, *you are in business*. All the principles of business accounting apply to you just as they do to every other business. This means that, even though you work from home and split your use of car and telephone between business and private, the *business* element must be properly calculated.

Telephone

On inspection, HMRC will now ONLY accept a figure that has been calculated from at least two telephone bills from each line/mobile used over the year. In practice, this means going through the bills with two highlighter pens and marking off the business and private calls. It doesn't matter so much if you cannot identify *every* call; say there were 150 calls and you could identify 60 as business, 40 as private with 50 unidentified; in that case, it would be reasonable to conclude that $\frac{60}{100}$ or 60% of all telephone costs on that line are on business.

Yes, this DOES mean that you will have to get itemised bills for all lines used for business unless you have a line that is used exclusively for business. If you have any all-in tariffs, then this DOES mean that you might need to write down each call in a separate book (you would need to do this for two sample months in the year, not for the whole year).

While this may seem a lot of bother, bear in mind that without adequate evidence, the Revenue will simply not allow ANY costs against the business; better to calculate that actually, the business use is only 50% when you had previously been claiming 75%, than to lose the claim completely.

Finally, remember that HMRC is highly unlikely to accept that any mobile line is used *exclusively* for business without additional evidence.

Motor Costs

Exactly the same principles apply, and again, HMRC rarely accepts a vehicle is used 100% for business without additional evidence. However, there is one aspect where they are actually quite helpful (*but note that this does not apply if your business is VAT-registered*).

HMRC 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. 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. Note the car's total mileage at the beginning and at the end of each year. The more technologically minded may like to consider using a small dictation machine and transferring the information to the book from time to time – but make sure the book is kept up to date frequently.

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

You need to remember two points of principle: first, this 'allowance' has always been a Revenue concession and is not supported as business expenditure in Tax Law. Second, sticking to HMRC 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.

Generally...

Inadequate evidence for business expenditure will always lead to it being disallowed on inspection. We have a duty in law to submit figures on your behalf that are acceptable to the Revenue, which means that by definition we cannot submit figures that are not acceptable, even if you do not get inspected.

We therefore have no option but to work to the principles set out in this guidance for every client, every year.

The more you can do to provide all of the relevant information, the easier it is for us. This is in your best interests as it keeps our fees to the minimum and offers you greatest protection in the event of HMRC Enquiries.

Guidance provided by:

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