



My MU

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Claiming Expenses

What you need to know

The Tax Acts state that, as a self-employed individual, you are entitled to claim for expenses incurred ‘wholly and exclusively... for the purpose of trade’.

The tax authorities will only allow expenses which come within this definition.

Luckily, this does cover most of the expenses you are likely to come across. If you can demonstrate to the tax authorities that the expenditure was incurred as a direct result of your work as a musician then he will be quite happy.

There are, however, a few borderline cases where you may have to negotiate. For example, stage clothes are a very grey area, and could fall under the notion of ‘duality’, as they have a duality of purpose. Some Inspectors have in the past claimed that clothes were not allowable as they served a dual purpose of being needed to perform the job and protecting the wearer’s modesty.

They have even taken this to court and won. However, some if not most Inspectors will allow clothes as long as they are only used on stage. Clearly, this is one area in which you would have to justify the expense. Therefore, jeans worn on stage would be difficult to justify.

Let us look at some of the more usual types of allowable expense. Although it must be pointed out that this is by no means an exhaustive list and you may well think of more along the same lines incurred in the course of your work:

Motoring expenses

These include road tax, insurance, oil, petrol, servicing, repairs, spares, cleaning materials, tyres, AA/RAC subscription, interest charged on a loan for vehicle purchase, car hire, garage rent (this must actually be paid out, i.e. you cannot claim for the garage on

the side of your home).

Motoring expenses will only be allowed on the business part of your mileage. That is why it is suggested that you keep a mileage logbook. For example:

— If total mileage is 10,000, and total motoring expenses = £1,000

— If total business mileage is 5,000, then allowable motoring expenses = £500

It is also possible to claim what are known as capital allowances, which reflect the depreciation of the vehicle. Please see below.

AMRs (Authorised Mileage Rates)

As an alternative to recording all motoring expenses, HMRC will accept a far simpler method for claiming motoring expenses.

Currently, the allowances are:

Cars and Vans First 10,000 business 45p per mile. Each additional mile 25p per mile

Passengers 5p per mile

Motorcycles 24p per mile

Bicycles 20p per mile

If you opt for this scheme, you simply have to record all business mileage. No other motoring expenses or capital allowances (for the vehicle) may be claimed. There are two points to bear in mind with the AMRs scheme:

1. Your turnover must not exceed the VAT registration threshold, which is £79,000 from 1 April 2013.
2. You are unable to chop and change from one scheme to the other. On a change of vehicle, you must either switch to the above basis or claim all motoring expenses and apportion motoring costs between business and private trips, to arrive at a figure for business motoring expenses.

In terms of simplicity, the AMRs have much to recommend them but a taxpayer must make a decision as to which method to adopt, with regard to his or her individual circumstances.

Other expenses

Stage clothes: Clothes that you only wear on stage can be claimed for 100% of the cost.

Ordinary clothes: As highlighted, this is a grey area, but the official line is, 'the cost of ordinary everyday clothing is not allowable — even if it is bought specially for business use'.

Footwear: The same rules as clothes apply.

Overnight accommodation : Where the trip necessitates one or more nights away from home, the hotel accommodation and reasonable costs of overnight subsistence are deductible. The costs of lunches are not normally allowable, unless you are travelling on business (for example, you are on a train from London to Edinburgh), in which case modest expenses may be deducted.

Travel : Travel to and from a regular gig at a regular venue will not usually be classed as business mileage for tax purposes. The reason for this is that the Inspector will say that as you are at the venue so often, your trade is carried on from there, and not from home. You will have to convince him that although you do this gig quite a lot, your business as a musician is based at home. The best way of doing this is to show that you have other gigs elsewhere. This can be quite difficult.

Stationery: Envelopes, paper, printing costs, letterheads, business cards, pens, pencils, photocopying, accounts, books, etc, and small items of office equipment (files, rubber stamps, etc). Large items of equipment (word processors, desks, chairs and so on) come under Capital Allowances, which are dealt with later on.

Postage: The Post Office will give you a receipt upon request.

Telephone rental charge: If half of your calls are for business, claim 50% of the rental charge against your tax. Use this formula to calculate your claim for mobile phones.

Telephone calls: Unlikely to be allowed 100% so do restrict your claim to the actual or an approximate business percentage.

Instrument insurance

Instrument repairs

Cleaning materials for instruments

Instrument replacements: Strictly speaking, you should get a Capital Allowance for instruments but small, inexpensive ones will usually just be allowed as an expense.

Music: All types, for example manuscripts, sheet music, and arrangements.

Car parking charges

Theatre tickets HMRC will allow the cost of theatre and musical tickets for you only.

Advertising: For example, Yellow Pages, advertisements for musicians' work or for second-hand instruments.

Laundry and dry cleaning: For your stage clothes only.

Publicity material: For example, badges, photographs, posters, flyers, car stickers. In addition, do not forget to claim the cost of photo sessions.

Hire of... Rehearsal rooms, recording facilities, studios, instruments and equipment.

Commissions: Paid to agents, managers, etc.

Accountancy fees

Subscriptions to business magazines: For example, Music Week, Guitarist, Gramophone, Rhythm.

Solicitors' fees: For example for recovering debts and drawing up contracts.

Bad or doubtful debts: For example, if you agree to do a gig but never get paid for it, after all reasonable attempts at recovery, your profit for that year is reduced by that amount, if you calculated income on an invoice not cash basis.

Bank charges: Those which have been paid in connection with your business. These are easily calculated if you have a separate bank account.

Interest charged on loans: For example, for the purchase of equipment. You will need to get a Certificate Of Interest Paid from whomever you have borrowed the cash, to send to the tax authorities.

Small consumable items: For example, strings, reeds, drumsticks, valve oil, resin.

Contact lenses: Where required for reading music, although this may be challenged.

Some dental work: For example, cosmetic or remedial, as with brass or woodwind players. Again, this type of work would be likely to be challenged by the Tax Inspector.

Gifts advertising your services: For example, pens, diaries, calendars and matches. The cost of each must not exceed £50, otherwise the whole amount will be disallowed.

CD/Cassette/DVD/MP3 player : You may have to convince the Tax Inspector that you need to use these items of equipment 'for the purpose of trade' — for example, to learn new pieces of music. However, the Tax Inspector will almost certainly only allow you to claim a part of the cost for business purposes.

CDs/cassettes/DVDs/MP3s: You will probably have to argue with the Tax Inspector over the allowable amount. Do not be frightened to argue, but do not be too greedy.

Professional subscriptions: Annual subscriptions of a professional nature. (Please refer to the item MU Subscriptions — An allowable deduction? below)

Other inexpensive items of equipment: For example, music, instrument and microphone stands. Expensive equipment comes under Capital Allowances, which is covered below.

Now we come to a couple of expenses that are a little more complicated...

Use of your home as an office : According to the tax authorities, if you set aside an identifiable part of your home and use it solely for business (e.g. if you use a room or part of one only as an office) then a proportion of running costs, such as insurance, heat and light and mortgage interest, is allowable.

If the part of the property used for business purposes is also used for some other purpose at the same time, then no deduction may be due.

If the part of the property used for business is used exclusively for this purpose, for only part of the time, you can claim part of the running costs, apportioned by reference to the time it is so used. It is important to note that if you use part of your home exclusively for business, you may be liable for Capital Gains Tax when you come to sell it. There are different views on this.

Wages: For example, to road crew, secretary etc. If you start paying wages to anyone on more than a strictly casual basis, you are going to become involved with starting a full PAYE scheme, and deducting tax, National Insurance Contributions and the like.

However, there is one very good tax saving tip — employ your husband or wife as a secretary/ accounts assistant/telephonist. But it is only worthwhile if he or she is not employed elsewhere, or

does not have a large amount of additional income. Your partner is allowed to earn a certain amount each week before paying any tax or National Insurance contributions.

Therefore, you can pay him or her, say, £10 a week for their services without having to set up a PAYE system, if she or he has no other income to speak of. However, they have got to work for you and the wages must be paid into their own account.

There are four important conditions:

1. Your partner must actually work for you, and the wage must be commercially justifiable.
2. You must actually pay your partner the money, and not just make it a bookkeeping entry. Therefore, it should be paid into a separate account in their name.
3. Your partner must remember to declare the income on his or her own tax return.
4. You may be asked by HMRC to specify your partner's exact duties so you must make reasonable evidence of his or her work available.

MU Subscriptions — an allowable deduction?

A number of reports have been received of musicians who are self-employed, and are classed as such for HMRC purposes, having difficulties in off-setting their MU subscriptions against their taxable income.

We understand that some local Tax Inspectors are quoting Section 343 ITEPA 2003 as the reason for this decision. This section is inappropriate, for while it severely restricts the fees and subscriptions that can be claimed, it relates only to persons taxable as employees.

The employed person will need to show that it was necessary to incur this expenditure to carry on his/her employment. Self-employed musicians are not covered by this category and should continue to claim their subscriptions as before, and will need to show that this expenditure was wholly and exclusively incurred for business use.

Related downloads

 **Musicians Bookkeeping Template**

