

Note:

When preparing this calculation, be careful to start with the NET profit per accounts.

2.2 Typical expenditure by a business

- (a) Capital expenditure including depreciation is not allowable
 - » repair to an asset is revenue expenditure and is allowable
 - » improvement to an asset is capital expenditure and is not allowable
- (b) Reliefs, such as qualifying loan interest payments (see chapter 2) are not allowable as they are dealt with as a deduction from total income
- (c) Patent royalties payable are an allowable deduction for adjusted trading profit.
- (d) Irrecoverable / Impaired Debts (Trade debt write offs & allowances)
 - » These are allowable; the tax treatment follows the accounting treatment
 - » However non trade write offs are not allowable and so the expense is added back.
- (e) Entertaining and gifts
 - » entertaining is disallowed, unless entertaining employees
 - » gifts to employees are allowable but maybe included as an assessable benefit within employment income for the employee - see Chapter 9
 - » gifts to customers are only allowable if
 - they cost less than £50 per person per year, and
 - the gift is not food, drink, tobacco or vouchers exchangeable for goods and services
 - the gift carries a conspicuous advertisement for the business.
- (f) Subscriptions and donations
 - » trade or professional association subscriptions are allowable
 - » charitable donation (Not made under Gift Aid)
 - if it is small and made wholly and exclusively for trading purposes (eg promoting business' name), and it is to a local charity then it is allowable
 - National / international charity donations are not allowable
 - » charitable donations (made under Gift Aid) are not allowable - see tax treatment in chapter 2.
 - » Political donations - these are not allowable
- (g) Legal and professional charges
 - » allowable if connected with the trade and are not related to capital items
 - » specifically **allowed** by statute:
 - costs of obtaining loan finance
 - costs of renewing a short lease (50 years or less)
- (h) Interest payable
 - » interest paid on borrowings for **trading purposes** is allowable on an accruals basis therefore no adjustment is needed.

- (i) Lease rentals on cars with CO₂ emissions exceeding 50g/km
 - » the disallowed amount is 15% of the leasing charges p.a.
- (j) Premium paid for the grant of a lease (see chapter 3).
 - » the premium itself is disallowed as is any amortisation of the premium
 - » the allowable amount to be computed is:

$$\frac{\frac{51 - n}{50} \times \text{Premium}}{n}$$

where n is the number of years of the lease.
- (k) Fines and penalties - Disallowed unless a parking fine paid on behalf of an employee and incurred whilst on business
- (l) The accounting profit must be adjusted for the private expenditure of the business owner. If the owner uses a car in the business and 20% of his mileage, then only 80% of motor expenses are allowable - thus add back 20% in the adjustment of profit

However if the owner provides an employee with a car, and 20% of the mileage is for private use by the employee, then the full amount of motor expenses is allowable. (The employee is then taxed on the private use as employment income - see chapter 9).
- (m) Any deduction described as the owner's salary, or drawings or interest on capital invested in the business is disallowed.
- (n) Interest paid on overdue tax is not deductible and interest received on overpaid tax is not taxable
- (o) Any salary paid to the family of the owner of the business must not be above the normal commercial rate for the job

Only salary at the commercial rate for the work done is allowable.
- (p) If an owner removes goods from the business for his own use he must add back the item as a sale at market value, unless the owner accounts for the cost of the goods in the business accounts then they need only add back the lost profit on the item.
- (q) Pre-trading expenditure – allowable if it is expenditure incurred in the seven years before a business commences to trade then it is treated as an expense incurred on the day the business starts trading and follows the above rules.
- (r) The general rule is that expenditure not wholly and exclusively for the purpose of the trade is not allowable