



Can I Claim For...?

I had hoped to write about the issues raised from this month's budget but, due to print deadlines, I will have to save that for next month ('shame' I hear you say). Instead, as we are fast approaching another tax year end, I thought it would be a good idea to cover a topic that seems to exercise the minds of many instructors, whether they be long established or just starting out in self employment for the first time. The most frequently asked questions that we hear from clients is 'Can I claim for...?' or 'Why can't I claim for ...?' and, although this topic has been looked at before, it seems appropriate to revisit it before records start being sent off to accountants in order for the next set of accounts to be prepared. So what is an allowable expense? Well, HM Revenue and Customs (HMRC) will allow you to claim a cost as a business expense and hence obtain tax relief, if it is 'wholly and exclusively for business purposes'. Fairly straightforward then! Well, yes, but there are plenty of grey areas. Most of the expenses incurred by a driving instructor in the course of his business can be offset against income. These would include vehicle running costs such as fuel and insurance, franchise fees, advertising, post and stationery etc. I do not intend to produce an exhaustive list of what is and what isn't allowable in this article, just give an overview of the areas to consider.

Getting Off To A Good Start

For those instructors just setting up in business, the first question asked, and not surprisingly given the amount involved, is 'Can I claim for the cost of my training?'. Sadly, for you, the short answer is no. This includes any course fees and any additional training costs incurred. It also includes the



costs of the initial ADI or PDI licence. The immediate follow up question is, unsurprisingly, 'Why?'. In simple terms, the reason for this is that HMRC argue that the cost of the training puts you in a position to begin trading rather than being a day to day cost of running that trade. For existing instructors, the cost of training incurred to expand the business into new but related areas may, however, be allowable for tax purposes. A good example might be an instructor who undertakes additional training to allow him to offer fleet training in addition to his existing instructing business. It is possible to claim some pre-trading expenses, but please contact your accountant or tax advisor for assistance in this area.

Moving Forward

As your driving school becomes more established, you may want to stop leasing a car or operating on a full franchise package and, instead, want to purchase a car for your business. At some point you may also buy other capital items such as a computer, laptop or satellite

navigation system for use in your business.

Tax relief for such items is given through the capital allowances scheme that I wrote about a couple of months back and will not repeat in detail here. It is sufficient to say that you will get tax relief for the cost you incur, but you may just receive it in a slightly different way from normal day to day costs. Your accountant will advise you on this area and generally calculate any capital allowances to which you are entitled.

If you buy your car or other capital asset using any sort of finance such as a hire purchase agreement, the actual repayments you make each month cannot be claimed. However, you are able to claim the interest element of those payments. Again, your accountant will generally calculate this for you.

Mixing It Up

HMRC do appreciate that some costs will have both business and private elements to them and may be difficult to split accurately. The best example of this is where a car is used as the family car but also used as the

instructing vehicle. Other common items that fall into this category include telephone and mobile phone charges. For record keeping purposes, it would be excessive to itemise every telephone bill or mobile phone bill to work out the split between business use and private use in monetary terms. HMRC will generally accept a "reasonable" allocation between business and private use. What is reasonable though will be specific to each individual business. In relation to car costs, the most common way to deal with this is to record your daily mileage split between business and private use and then calculate an appropriate percentage to apply to the overall costs incurred. The elements of the costs that are deemed private in nature are not allowable business deductions.

A Definite Red Light

There are a number of costs that we are often asked about that are most definitely ineligible. I hope from what I have said above you are beginning to see why this may be the case, and they include - gym membership, spectacles, chewing gum, physiotherapy and cigarettes to name but a few. These are quite obviously not incurred in the course of the business and do not fall within the 'wholly and exclusively for business purposes' definition.

In Conclusion

I hope that, if nothing else, the above gives you a flavour of how HMRC looks at the costs incurred in a business, and how it decides what is and isn't allowable.

If you are unsure whether something is allowable for tax purposes, then try to apply the 'wholly and exclusively' rule to it. If you are still none the wiser, then ask your accountant or tax adviser for advice. After all, that is what you are paying them for!

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