



# My Virtual Financial Controller

Financial Wizardry for the Self Employed

# Get your accounts under control

Lesson 3

“On a mission to help women in business”

Accounting, tax & bookkeeping services  
for women in business & microbusiness

# Get your accounts under control



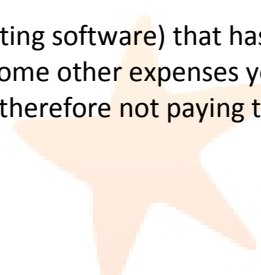
## Lesson 3

### Cash, travel and working from home

By now you have created a first look summary of your accounts, and have an idea of how much profit or loss you've made. You'll be glad to hear that you have broken the back of it and are well on the way to having everything ready to file online.


### Lesson 3 is all about the tax saving opportunities

You have already got a spreadsheet (or accounting software) that has all your bank, credit card, and PayPal transactions in it. There are some other expenses you can add in to make sure you are not overstating your profits - and therefore not paying too much tax.

- Cash expenses;
  - Travel and motoring;
  - Working from home.
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### Cash expenses

Most people pay for some business expenses with cash and it is important to make sure you deduct those from your business profits. Some examples of expenses you might want to check through include:


- Parking tickets;
  - Taxis;
  - Postage;
  - Stationery.
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It is really important that you have receipts for any cash expenses (you need receipts for **all** expenses, but at least if you can see it on a bank statement there is some evidence of payment), although parking meters don't give receipts so that is not always possible!

Add any cash expenses into your bookkeeping spreadsheet or accounting software.

### Travel and motoring expenses

You should already have included most of your travel expenses, either through review of your bank and credit card statements, or through adding in cash expenses. It is worth checking back through your diary from April 2013 through to March 2014 and making a list of all business travel just to make sure nothing is missed.



One thing to be careful about is how much you claim for subsistence (i.e. food) for business trips. If your business trip doesn't involve any overnight stay then you can't claim any subsistence at all. If you are away overnight then you can claim "reasonable" costs for your breakfast and evening meal, but not lunch or coffee and snacks over the day (N.B. this only applies to sole traders).

You also can't claim travel expenses for your normal commute.

If you do any business travel using your car, van, motorbike or bicycle then you can deduct an amount from your taxable profits. There are two ways to do that:

- Calculate business mileage; OR
- Take actual expenses.

The easier option is to calculate your business mileage (you can only do this if your turnover is below the VAT registration threshold). You can set up a simple spreadsheet to do that, or download my mileage log (which can be found in the Templates and calculators section). Enter all of your business journeys using your list of business travel (they should be business only trips, not combined business and personal). You can claim 45p a mile for the first 10,000 miles in the year for a car or a van, and 25p a mile above 10,000 miles. If you have a motorbike instead of a car then its 24p a mile, and if you have a bicycle then its 20p a mile - what more incentive do you need to get fit!

If you do a lot of business miles then you may be better off to take actual expenses. You need to have a full mileage log with mileage at the beginning of the year, mileage at the end of the year, and a record of your mileage over the year split between business and personal. You can then figure out what percentage of your total mileage in the year was for business, and then take that percentage of your running costs, including:

- Petrol / diesel;
- Road tax;
- MOT;
- Car insurance;
- Repairs and servicing.

If you take actual expenses then you can also claim "capital allowances" of a percentage of the cost of the car. This is a pretty complicated area as what you can claim depends on the car emissions, and whether it is used exclusively for business. I'll cover basic capital allowances in lesson 4, or you may want to refer to the car expenses section (coming soon!) of the Virtual Financial Controller program which looks at exactly what you can claim.

You can't change which method you use - if you have calculated business mileage before then you can't switch over to using actual expenses while still using the same car.

Add any motoring expenses into your bookkeeping spreadsheet or accounting software.

## Working from home

If you do any work from home then you can claim working from home expenses. Again you have two options.

**Option 1:** Reduce your taxable profits by an allowance - the current accepted level is £4 per week for every week you do any work from home. So for example you do some work from home 46 weeks out of the year, and your taxable profits before taking any allowance are £12,200. Your working from home allowance is then  $£4 \times 46 = £184$ , so your taxable profits drop to  $£12,200 - £184 = £12,016$ .

**Option 2:** This is more complicated, and is only worthwhile if you spend a reasonable amount of time working from home.

- Firstly, decide how much of your house is used for business purposes. You can base this on square footage, or number of rooms (don't count bathrooms when you are looking at how many rooms you have in your house). Perhaps you work on your dining table, and your house has 6 rooms (kitchen/diner, sitting room, 4 bedrooms), so you use  $1/6$  of your house;
- Secondly, work out how much of the time you use the area for business vs personal. In my example I use my dining table for 4 hours a day for work, and only 1 hour a day for eating on, so this gives me business use of  $4/5$ ;
- Combine these to give you your business use proportion. I would end up with  $1/6 \times 4/5 = 2/15$ ;
- Add up the running costs of your house - including mortgage interest (not capital) or rent, utility bills, council tax, buildings and contents insurance, cleaning, and repair bills (but only if they affect the area you work in) - mine add up to £1500 per month;
- Calculate the business use proportion of your total running costs to give you your tax deductible expense - mine would be  $£1500 \times 2/15 = £200$  per month or £2400 per year.

Add any working from home expenses into your bookkeeping spreadsheet or accounting software.

## Well done! You have now included almost everything

Your accounts are really coming together now. You have one more lesson to work through, which will help you to make the final tweaks to your numbers.