My Virtual Financial Controller

Financial Wizardry for the Self Employed

Get your accounts under control

Lesson 4

"On a mission to help women in business"

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

Starfish Accounting Ltd
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Capital allowances and final considerations

Congratulations on making it through to the final lesson! You are almost there, just one last push to finish your accounts ready to put into your tax return.

Lesson 4 gets you ready to fill in your tax return

There isn't much left to sort out now. This final instalment is going to run through three areas that people often don't get right:

- Fixed assets and capital allowances;
- Getting your turnover right;
- Timing of expenses.

Fixed assets and capital allowances

Most expenses go through as "normal" business expenses when calculating the profit to include in your self-employment pages. However, if you buy a fixed asset - i.e. a something which is going to last you for several years - you have to treat that differently. Some examples of fixed assets include:

- Computer, laptop, printer, tablet, smart phone;
- Desk, chair, filing cabinet;
- Machinery, tools;
- Car or van.

I mentioned these briefly in lesson 2, so you should have tracked them separately. If not work through your spreadsheet listing all your expenses and highlight anything which sounds similar to the above.

For accounting purposes you would spread the cost of these assets over their expected useful lives - this is called "depreciation". It isn't really something you need to worry too much about for your tax return, as the tax treatment is different.

Capital allowances – general rule (NOT cars)

Capital allowances can be complicated, and if it is something that worries you then I would recommend getting professional advice. However, if you only buy a handful of fixed assets a year then you should be OK following the simplified guidance below.

Step 1: Add up the total amount you spent on your fixed assets during the tax year (excluding cars).

Step 2: Decide how much of each asset you use for business vs personal. A lot of assets will be 100% business use, or close to it, but perhaps you also use your laptop for playing games / internet shopping etc. If you do have some personal use then take off part of the cost (so perhaps your laptop cost you £500, and you use it 80% for business, so deduct the remaining 20% or £100 to give you a business portion of £400).

Step 3: Check that your adjusted business only total amount is less than £250,000 (!!).

Step 4: Make a note of this amount and make sure that you haven't taken it into account in calculating your business profits. You get to claim it on your tax return under the "annual investment allowance" description (Box 22 on the short self-employed pages).

Capital allowances – cars

If you have bought a car and you do a significant number of business miles then you may have chosen to put through actual expenses instead of calculate mileage (see lesson 3). As well as running costs, you can also put through capital allowances. Unfortunately the easy annual investment allowance route can't be taken for cars.

If you bought a new car with CO_2 emissions of not more than 95 grams per kilometre driven there is a 100% first-year allowance available - so you can write it all off in the first year. If the car has higher emissions then you have to do a more complicated annual calculation. Basically, you can take a percentage of the cost as an allowance in the first year, and then in future years you take a percentage of what you haven't yet claimed. You still need to know the emissions - the allowance between 95 g/km and 130 g/km is 18%, and above 130 g/km is 8%.

I've included an example below to help you through it.

Example: Bought car on 1 June 2013, used 75% for business, cost £10,000, emissions 123 g/km

Calculation (year 1)

Cost £10,000 - first year allowance @ 18% = £1,800 (so not yet claimed £10,000 - £1,800 = £8,200)

Business use is 75% of £1,800 = **£1,350 allowance** to include on your tax return

Calculation (year 2)

Opening position = £8,200. Second year allowance @ 18% = £1,476 (so not yet claimed £8,200 - £1,476 = £6,724)

Personal use now only 20%. Business use is 80% of £1,476 = **£1,180.80 allowance** to include on your tax return.

Capital allowances – one last thought

Claiming capital allowances is optional. If your net income is below the personal allowance and National Insurance thresholds, and therefore you won't be paying any tax, you can choose NOT to claim your capital allowances and save them for a future year when your income is higher. Why take a tax allowance if it doesn't save you tax?

There is no limit to how long you can carry them forward for, but you are restricted to how much you can take a year when you do start claiming them.

If however your business is loss making but you are still paying tax due to your other income then I would still claim them - you can offset your business losses against your other income and save tax that way instead.

Getting your turnover right

Your turnover is basically:

- The total amount you bill to your customers;
- LESS any discounts;
- LESS any VAT.

That means that your turnover includes a couple of things you might not expect, for example:

- If you bill for shipping that is part of your turnover;
- Your total turnover is the total amount BEFORE you take off commission or PayPal fees;
- If you bill your customer for expenses, that is also part of your turnover.

One other thing to remember is that your turnover number should be based on **when you actually provide the goods or services**, not when you invoice it or when you receive the cash for it. That is important at the end of the tax year - if you did the work in March 2014, but were paid in April, you should include it in the 2013-2014 tax year.

Putting your expenses in the right tax year

Just like for turnover, you should include expenses in the tax year where you had the benefit from them. So if you paid for some advertising in March 2014, but the advert isn't being published until June, you should put the expense in your books in the next tax year. If on the other hand your advert was published in March 2014, and you didn't pay for it until May, you should include it in the 2013-2014 tax year.

So what do I put in my tax return?

You now have all the numbers you need. Take your turnover and business profit (or loss) from your spreadsheet total, and your capital allowances number from the calculations you did based on the above. And that's it! Like they say, tax doesn't have to be taxing ;-)

Brilliant job, preparation complete!

You should now feel confident that you have considered everything and have the correct numbers to put into your tax return.

You MUST file your tax return by 31 January - if you don't then you will get an automatic £100 penalty EVEN IF YOU DON'T OWE ANY TAX!

If you need any help with completing your tax return using HMRC's online filing software then take a look at the tax return guide section of the Virtual Financial Controller program for detailed step by step instructions.