

# HOW TO MAXIMISE DEDUCTIONS FOR BUSINESS EXPENSES

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BUSINESS

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# 1

## Introduction

When working out the profits or losses of your business, you can deduct any allowable expenses that you incur in running your business to arrive at the profit (or loss) figure before tax. The more expenses you deduct, the lower your taxable profit and the less tax you pay. In most people's books that is a good thing! It is important, therefore, that you claim a deduction for all allowable expenses.

There is a lot of confusion as to what can and cannot be deducted. To ensure that you claim the maximum permissible deductions for business expenses, it is important that you:

- understand the rules as to what can be deducted;
- appreciate what expenses are not allowable, and why;
- understand when relief is given; and
- keep good records so that you know what business expenses you have incurred.

# 2

## 'Wholly And Exclusively' Rule

### 2.1 The Basic Rule

The basic rule is that a deduction is allowed for expenses incurred wholly and exclusively for the purpose of the trade. The rule works by prohibiting expenses that are not wholly and exclusively so incurred, stating:

'In calculating the profits of a trade, no deduction is allowed for –  
(a) expenses not incurred wholly and exclusively for the purposes of the trade...'

Unlike the equivalent rule for employment expenses, there is no requirement that the expense is 'necessarily' incurred. This means that as long as an expense is incurred for the purposes of the business and only for that purpose, a deduction is given. There is no requirement that it is necessary to incur the expense for it to be deductible.

### 2.2 No Deduction For Private Expenditure

To qualify for a deduction from trading profits, the 'trade purpose' must be the sole purpose of the expenses. Private expenditure is not incurred 'for the purposes of the trade', and as such it fails the deductibility test. No deduction is given for private expenditure and under no circumstances should private items be 'put through the business'. When preparing the accounts, it is prudent to check for any private items that might have slipped through by mistake so these can be treated correctly.

It is important to appreciate that the existence of a non-trade or private purpose will preclude the deduction in full if there is no 'objective yardstick' by which the trade element can be distinguished from the non-trade element.