

TAX DEDUCTION FOR EXPENSES – MOTOR AND TRAVEL

A summary of the rules that determine whether a tax deduction can be
claimed for motor and travel costs

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February 2020 –
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Tax deduction for expenses – Travel

This article should be read alongside

Tax deduction for expenses – excluding travel

which lays out the basic rules

Business deduction or employee expenses claim?

The way in which the rules operate depend on whether you are considering a deduction from the taxable profits of a business (be it sole trader or Limited Company) or whether you are considering an employee expenses claim from employment income.

When an employer pays you an expense claim, or pays direct for your travel, this is initially taxable employment income for the individual. However, an expense claim is made against the income if the expense meets the qualifying conditions (see below) and there is no tax to pay by the individual.

It is important to understand the distinction between a business deduction from taxable profits and an employee expenses claim as the rules are different.

Business Deduction – Limited Company

A Limited company can claim a deduction from profits for the journey, even if this is private. However, the individual making the journey will pay tax on the amount if the journey does not qualify for an employee expense claim (see below).

Business deduction – Not Limited company - General rules

The general rule is that expenses can be claimed if wholly and exclusively for the purpose of the trade

Business journey

A business can claim a deduction for expenses for a business journey

A journey from home to a base of operations is not a business journey as part of the reason for the journey is to get to and from home and this is not business related. HMRC take the view that as part of the journey is connected with a home journey which arises from your decision about where you live relative to the base of operations and as this element cannot be split out from the other business-related part of the journey, none of the journey is allowed. This idea has been heavily tested in the courts and is a well-established principle in case law.

Base of operations

A base of operations can be a single physical location (e.g. office block), a number of different physical locations (different work sites) or a geographical area containing lots of individual locations (a milkman's round).

A base of operations is a place where you regularly or predictably attend to perform the trade. How often is "regular" and what is "predictable" is not defined.

A base of operations can be at home e.g. home office / workshop in garage

A journey between two bases of operation is allowed as a business journey. If there is a base of operations at home, then the journey is NOT allowed as a journey between two bases as that location is both business and home and the business element cannot be split.

The exception to the above rule is when there is a base of operations at home and there is a substantive reason for this (i.e. it is a necessity and not just a matter of convenience).

If it can be shown that the journey destination is NOT a base of operations (e.g. a client site visited irregularly) then the journey from home to that site could be argued to only occur as a result of the need to do business at that location for that short period of time, is not in any way connected with your decision to live in a particular location and would therefore be allowed. If that journey becomes regular / habitual, then the journey is then from home to a base of operations and it is not allowed.

Defined area

Travel within the area to visit various customers for temporary tasks is allowed. However, travel to the outskirts of the area is not allowed. If you live in the area, then all travel is allowed.

Use of a business van

If it is not practical to leave the van on site or at a depot then the journey home is to get the van to its overnight storage location. Any private element is incidental to the business element. This journey is therefore treated as business.

If you use the van to visit the shops on the way home, the private element is incidental to the business journey and the whole journey is allowed.

If the van is used for a private weekend trip, then the journey is not business.

See employee rules below for company vans.

Summary – business deduction from profits

A journey to a destination which is a base of operations and return to home is part business (to do the task) and also part private (to get home). As the private element can not be split out then the whole journey is not allowed. If the journey is to do a “temporary” task, then the only reason for making the journey is to do that task and travel is allowed. Examples of allowable journeys would be doctors making home visits to patients, builders / plumbers visiting households.

Employee -General rules

Please also see my article

Tax deduction for expenses – excluding travel

which lays out the basic rules

Employee travel expenses claim– including for your own company

The reimbursement of travel costs by the company is allowed as a deduction against profits but is taxable on the employee as income. However, a deduction can be claimed, and no tax paid, if, and only if the following conditions are met:

- 1 The journey is NOT from home to a permanent workplace
- 2 A journey to a non-permanent workplace is NOT substantially the same as a journey to the permanent workplace (i.e. their locations are very similar).
- 3 The journey is NOT to a defined area in which employment duties are carried out. However, travel WITHIN that area is allowable. This rule applies to salesmen whose duties include visiting various sites within a specified area.

The expense must be necessarily incurred in the performance of the duties of the employment. In other words, it would not be possible to carry out the duties without the expense.

This also means that the duties must commence before making the journey, not when you arrive at the destination.

Workplace

A place attended for the performance of the duties of employment.

If you do not have to go there to carry out duties, it is not a workplace.

Permanent workplace

A workplace is permanent if the attendance is:

- Frequent
- Follows a pattern
- For all or most of the employment

Exception to the above rule: The workplace is NOT a permanent workplace if it can be classed as a temporary workplace.

Temporary workplace

A temporary workplace is a place where the employee attends for a

- Limited duration
- For a temporary purpose
- NOT for the whole period of employment.

Limited Duration

The attendance is for a limited duration if it:

Is NOT likely or expected to last more than 24 months

AND

Is NOT a continuous period of work – i.e. the employee spends less than 40% of time at the workplace

At the point when you know the attendance will have lasted > 24 months, then from that point it is NOT a limited duration and claims should stop.

For example: An 18-month contract is renewed with a 12-month contract. At the point of renewal, the attendance is less than 24 months but from that point you know the total attendance will be more than 24 months. Therefore, claims from renewal must stop.

Temporary purpose

Each visit is self-contained as opposed to a series of visits connected with the same task.

Fixed term appointments

Attendance is not for a limited duration or a temporary purpose if it lasts all, or almost all, of the period for which employee holds, or is likely to hold, employment.

Agency workers

Each assignment is seen by HMRC as a separate employment and therefore the task will last for the whole length of that employment. As a consequence, travel from home to those premises is not allowable.

IR35

If you operate IR35 or the end user of your services has provided a status determine statement (SDS) indicating that they feel you are IR35, then additional rules apply. Please contact Complete Accounts for full details.

Overseas travel

Special rules apply. Contact Complete Accounts for details

Use of company vehicle

If the vehicle is available for private use, then this is not taxed based on how much you or an employee uses the vehicle. There is a fixed tax charge, irrespective of how much private use there is. Strictly, there does not even have to be any private use at all.

For this reason, it is advisable for Limited Companies to have a written policy that employees are not permitted to use company vans for private use.

Use of a company car

The private element is taxed at a fixed rate which is calculated on a formula based on the Co2 emissions of the car and its list price when new.

Fuel for a company car

There is a separate fixed rate tax charge if fuel is provided for a company car. This is in addition to the tax charge on the car itself.

Use of company van

The private element is taxed at a fixed charge set by the government. Contact Complete Accounts Limited for current rates. e: chris@completeaccounts.co.uk

Driving a company van home or to the shops on the way home is deemed to be a journey incidental to business journey and therefore does not count as private.

Using the van privately over a weekend or for a holiday counts as private and will trigger a fixed rate benefit in kind charge and also reporting requirements.

Is the company vehicle a car or a van?

A recent tax case (Coca Cola) established that a double cab pick-up may be treated as a car and not a van. The case was not actually about a double cab pick-up but the decision could affect the tax treatment of these vehicles.

This is a very important area as fines for incorrect treatment may be very large. Please contact Complete Accounts Limited e: chris@completeaccounts.co.uk for more details.

How much can I claim?

Deduction from profits - Sole trader / Partnership

You can either work out the business proportion of the total cost of all journeys or a small business can claim a fixed mileage rate of 45p per mile for the first 10,000 miles and then 25p per mile for each additional mile in a tax year.

Deduction from profits - Limited Company

A limited company can deduct the whole cost of running the car or van on the company. There is no apportionment for private use as this is taken care of via a fixed rate tax charge on the employee.

Employee expenses claim

As an employee you can claim 45p per mile for the first 10,000 miles and then 25p for each additional mile if you use your own car for company business. There is no tax or disclosure required if you use these rates.

If you use a business vehicle but fund the fuel yourself, there is a fixed rate fuel only claim available. The rates change regularly with fuel prices. Please contact Complete Accounts Limited for the latest rates.

Food and subsistence

As well as the costs of the journey it may be possible to also claim the cost of meals on a business journey.

This can either be the actual cost of the meal or a flat rate in accordance with a HMRC approved scale. The rates will depend on what time you start, how many hours you are away from home and whether an overnight stay is involved.

To claim the flat rate amounts you must actually buy a meal, even if this is cheaper than the flat rate allowed.

Keep evidence of meals purchased

Contact Complete Accounts Limited for full details

Travel costs not reimbursed by employer

Even if your employer does not pay the full 45p/25p allowance allowed, you can claim any shortfall as a deduction on your tax return.

VAT

VAT registered businesses can claim some VAT back on the fixed rate mileage claims paid out. The calculation is not a simple fraction of the claim paid and you should contact Complete Accounts Limited for full details.

If you claim a proportion of total expenses as business, a proportion of the VAT can be claimed.

If you are a Limited company funding a company vehicle, all vat can be recovered.

Disclaimer

This article is designed as an aid to understanding the basic rules that apply when making a tax deduction in the UK. It is not designed to replace detailed professional advice and no responsibility is accepted by Complete Accounts Limited for any decision made based on this article. Complete Accounts are available to discuss any specific item in detail on

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