Cheatography

Business Tax 4: Self Employment pt. 1 Cheat Sheet by mgxx2004 (mgrawahi) via cheatography.com/197440/cs/45427/

Deductible Expenditure - General Rule			
Expenses are deductible if they are incurred wholly and exclusively for the purposes of the trade.			
Classes of	Allowable Expenditure		
Expenses must be wholly and exclusively for trade purposes. Key allowable costs include:			
1. Interest (except on overdue tax).			
2. Legal & professional fees (unless for capital items).			
3. Damages & compensation payments.			
4. VAT unable to reclaim.			
5. Trade subscriptions.			
6. Employees' remuneration (genuine salaries; excessive payments to relatives disallowed).			
7. Theft by staff (unless they control the business).			
8. Travel expenses (excluding home-to- work commutes, unless home is the work base).			
9. Patent royalties & trademark registration costs.			
10. Incidental loan costs (for business loans).			
Current Year Basis			
СҮВ	when business profits are taxed in the owner's tax returns.		
	- During the main years of operation, CYB is the standard method.		
Europe 1			
Example	A trader with a 31st December 2023 year-end would have profits taxed in the 2023/2024 tax year.		
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Disallowed Expenditure

	nses are disallowed for tax der Case Law or Statute Law:
1. Capital Expend- iture (ITTOIA 2005)	No clear definition, but includes items providing an "- Enduring Benefit" (Atherton v British Insulated & Helsby Cables).
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2. Drawings	Owner's personal withdrawals, salary, or benefits (e.g., tax/NI payments).
3. Provisions	Generally allowed if following accounting standards, but general provisions for bad debts are disallowed.
4. Entert- ainment and Gifts	Customer entertainment is generally disallowed.
	Allowed deductions: Staff parties (employees may be taxed). Gifts to employees (wholly & exclusively for trade). Samples of trading goods (PR exercise).
5. Political Donations and Subscr- iptions	Generally not allowed, unless providing a definite trade benefit (Morgan v Tate & Lyle).

Disallowed Expenditure (cont)

6. Fines	Generally not allowed, but	
and	parking fines for employees	
Penalties	using company vehicles are	
	permitted (employee may incur	
	a benefit-in-kind tax).	
7. Illegal	Payments like bribes or	
Payment	blackmail are not allowed.	
Expenditure not shown in accounts		
Depreciation (a capital item) is added back		

and replaced with **Capital Allowances**, the tax-equivalent deduction for capital expenditure. Details follow in the next lecture.

Adjustments relating to Income

To calculate taxable profit, income adjustments are needed:

1. Remove Non-Trading Income

Examples:

- · Interest and income are taxed elsewhere.
- Profits/losses from capital asset disposal.

• Changes in general provisions (already noted under expenses).

2. Insert Missing Trading Income

- Typically includes owner consumption of own goods, treated at market value (ITTOIA 2005).

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