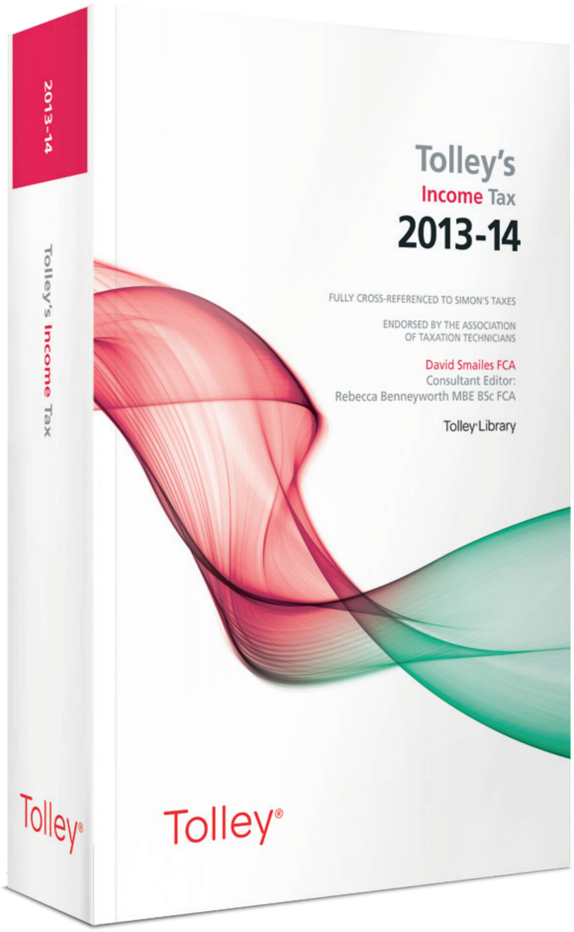
TOLLEY'S INCOME TAX 2013-14

Trading Income, Fixed Rate Deduction Scheme Extract



75

Trading Income — Fixed Rate Deduction Scheme

Cross-reference. See 73 trading income.

Introduction

[75.1]

For **2013/14** onwards, all unincorporated businesses can deduct certain types of expenditure on a simplified flat rate basis in computing their taxable trading income (the `*fixed rate deduction scheme*'). The types of expenditure covered by the fixed rate deduction scheme are expenditure on vehicles (**75.2** below), on use of home for business purposes (**75.5** below), and on premises used both as a home and as business premises (**75.6** below). The fixed rate deduction scheme is entirely optional.

The fixed rate deduction scheme applies to professions and vocations as well as to trades. It applies equally to partnerships provided all the partners are individuals. [*ITTOIA 2005, ss 94B, 94C; FA 2013, Sch 5 paras 2, 6*].

In the rest of this chapter, `trade' includes `profession or vocation'.

For official guidance, see HMRC Technical Note, 28 March 2013 at www.hmrc.gov.uk/budget-updates/march2013/simpler-income-tax-tech-note.pdf.

Expenditure on vehicles

[75.2]

If, in computing the profits of a trade for a period of account, a deduction would otherwise be allowable in respect of `qualifying expenditure' incurred in relation to a `relevant vehicle' (see **75.3** below), a fixed rate deduction is allowed for the period in respect of the qualifying expenditure. This applies equally if a deduction would be so allowable but for the fact that the qualifying expenditure is capital expenditure, e.g. expenditure on the acquisition of the vehicle. The amount of the deduction is the `appropriate mileage amount' (see **75.4** below) for the relevant vehicle for the period. Use of a fixed rate deduction is optional.

`Qualifying expenditure', in relation to a vehicle, means expenditure incurred in respect of the acquisition, ownership, hire, leasing or use of the vehicle, other than incidental expenses incurred in connection with a particular journey.

If a fixed rate deduction is made for a period of account in respect of qualifying expenditure incurred in relation to a vehicle, no other deduction is allowed (for that or any other period) in respect of the qualifying expenditure. As regards subsequent periods of account, the fixed rate deduction scheme is then compulsory for that vehicle for every period for which it is used for the purposes of the trade. No capital allowances, or no *further* capital allowances, can be claimed on the vehicle once the fixed rate deduction is made — see **10.3, 10.22** capital allowances on plant and machinery.

[*ITTOIA 2005, s 94D; FA 2013, Sch 5 paras 2, 6*].

Vehicles included in the scheme

[75.3]

A `*relevant vehicle*' in **75.2** above means a `car', motor cycle or `goods vehicle' that is used for the purposes of the trade and is not an `excluded vehicle'.

For these purposes, a `*car*' is any mechanically propelled road vehicle other than a motor cycle, goods vehicle, invalid carriage or vehicle of a type not commonly used as a private vehicle and unsuitable to be so used. A `*goods vehicle*' is any mechanically propelled road vehicle, other than a motor cycle, which is of a construction primarily suited for the conveyance of goods or burden of any description.

A vehicle is an `*excluded vehicle*' if:

- the person carrying on the trade has at any time claimed plant and machinery capital allowances on any expenditure incurred on the provision of the vehicle; or
- the vehicle is a goods vehicle or motor cycle and any expenditure incurred on its acquisition has been deducted in calculating the profits of the trade for any period on the cash basis (see 74 trading income — cash basis for small businesses).

[*ITTOIA 2005, ss 94D(2), 94E, 94G; FA 2013, Sch 5 paras 2, 6*].

Appropriate mileage amount

[75.4]

The `*appropriate mileage amount*' (see **75.2** above) for the relevant vehicle for the period of account is

$$M \times R$$

where M is the number of miles of `business journeys' made by a person (other than as a passenger) using the vehicle in the period; and

R is the rate applicable for that kind of vehicle. The rates are as follows.

	Per each of the first 10,000 miles	*Per each mile over 10,000*
Cars and goods vehicles	45p	25p
Motor cycles	24p	24p

For these purposes a `*business journey*' is any journey, or any identifiable part or proportion of a journey, that is made wholly and exclusively for the purposes of the trade. Where the total number of miles of `relevant business journeys' made in the period is greater than 10,000, the rate of 45p per mile is available only in relation to 10,000 of those miles; a `*relevant business journey*' is any business journey made in the period by *any* car or goods vehicle which is used for the trade and in relation to which a fixed rate deduction is made for the period; in other words the business mileage of all such vehicles is considered in aggregate.

[*ITTOIA 2005, s 94F; FA 2013, Sch 5 paras 2, 6*].

Use of home for business

[75.5]

If, in computing the profits of a trade for a period of account, a deduction would otherwise be allowable for the use of the trader's home for the purposes of the trade (see **73.126** trading income), a fixed rate deduction can be made instead. Use of a fixed rate deduction is optional.

The amount of the fixed rate deduction for the period is the sum of the `applicable amounts' for each month, or part of a month, falling within the period. The `*applicable amount*' for any month (or part of a month) is based on the number of hours worked as set out below. For these purposes the number of hours worked in a month (or part of a month) is the number of hours spent wholly and exclusively on work done by the trader, or any employee of the trader, in the trader's home, being work that is done wholly and exclusively for the purposes of the trade. If the trader has more than one home, these rules have effect as if all his homes were a single home.

Number of hours worked	*Applicable amount*
25 or more	£10.00
51 or more	£18.00
101 or more	£26.00

[*ITTOIA 2005, s 94H; FA 2013, Sch 5 paras 2, 6*].

Mixed use premises

[75.6]

A fixed rate deduction can be made in relation to expenses incurred in relation to premises if:

- a person carries on a trade at the premises;
- the premises are used mainly for the purposes of carrying on the trade, but are also used by the person as a home;
- the expenses are incurred mainly (but not wholly and exclusively) for the purposes of the trade; and
- a deduction would otherwise be allowable for the period of account in respect of a part or proportion of the expenses in accordance with the dual purpose rule in **73.37** trading income (deduction available for any *identifiable* part or proportion of an expense which is incurred wholly and exclusively for the business purposes).

Use of a fixed rate deduction is optional. The amount of the fixed rate deduction for the period is the amount of expenses incurred less an amount representing non-business use. The restriction for non-business use is the sum of the `disallowable amounts' for each month, or part of a month, falling within the period. The `*disallowable amount*' for any month (or part of a month) is based on the number of `relevant occupants' as set out below. A `*relevant occupant*', in relation to a month (or part of a month), means an individual who, at any time during that month (or that part of a month), either occupies the premises as a home or stays at the premises otherwise than in the course of the trade.

Number of relevant occupants	*Disallowable amount*
1	£350.00
2	£500.00
3 or more	£650.00

[*ITTOIA 2005, s 94I; FA 2013, Sch 5 paras 2, 6*].

Board and lodging agreements

Historically, some HMRC offices entered into board and lodging agreements with small hotel and guest house businesses. These provided a practical basis for agreeing private use adjustments in respect of use of the premises by the proprietor(s) and their family. In view of the introduction of the fixed rate deduction scheme, HMRC are withdrawing these agreements with effect for 2013/14 onwards. As a transitional measure, any business for which an agreement with HMRC was in use for 2012/13 can use it again for 2013/14, but not beyond (HMRC Brief 14/13, 2 July 2013).

Key points

[75.7]

Points to consider are as follows.

- Where the fixed rate deduction is claimed in respect of cars or vans, the 10,000 mile band for which 45p per mile is available is shared between all of the vehicles. This means that the election is less attractive when multiple vehicles are used by the business, as it is unlikely to cover the fixed costs of more than one vehicle.
- If no election is made for the fixed rate deduction for business use of home, the only alternative is to calculate the apportioned business expenses using the methodology described in HMRC Business Income Manual starting at BIM47800. HMRC are most unlikely to accept any other flat rate deduction in the face of the new statutory rates.
- Traders have a free choice of whether or not to adopt each of the fixed rate deductions. Those who choose not to can still claim for a deduction (or in the case of private use of business premises should add back an appropriate sum) based on a rigorous calculation of the amount by reference to the evidence and costs incurred.
- Note that the fixed rate deduction scheme is not restricted to those businesses eligible for the cash basis of accounting. The only income tax businesses for which the fixed rate deductions are not applicable are partnerships where any member is not an individual.

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