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ZMARTLY FACTSHEET SERIES

BUSINESSES

Allowable Business Expenses Explained

Claiming the right expenses lowers your taxable profit and the tax you pay. This factsheet explains the rules, what you can and cannot claim, and how to keep records HMRC will accept.

Tax year **2026/27** · Prepared by **Harvey Dhillon** · Last reviewed **21 August 2026** · Sources: gov.uk

MILEAGE (CAR)	TRADING ALLOWANCE	CORPORATION TAX	PERSONAL ALLOWANCE
55p / 25p per mile	**£1,000**	**19% – 25%**	**£12,570**

01 The "wholly and exclusively" rule

An expense is only allowable if it is incurred wholly and exclusively for the purposes of your trade. Costs with a mix of business and private use must be apportioned, with only the business share claimed.

GOOD TO KNOW
If a cost has a clear personal benefit, expect HMRC to challenge it unless you can split out the business portion.

02 Common allowable categories

Most day-to-day running costs of a genuine business are deductible. Keep them organised so nothing is missed at year-end.

- Business travel and accommodation (not ordinary commuting)
- Office costs, software, phone and internet
- Marketing, advertising and your website
- Accountancy, legal and other professional fees
- Staff salaries, employer pension contributions and training

03 Travel, mileage and use of home

The rules differ by regime, so check which one applies to you. A sole trader claims through simplified expenses; a director or employee is reimbursed by their company at HMRC's approved mileage allowance payment rates. Either way you can claim mileage instead of actual running costs, and working from home can be claimed using flat rates or an actual proportion of household bills.

- Cars and goods vehicles: 55p per mile for the first 10,000 business miles, then 25p. The same rate applies to sole traders using simplified expenses and to employees and directors reimbursed by a company
- Motorcycles 24p per mile. The 20p bicycle rate applies to employees and directors reimbursed by a company, not to sole traders using simplified expenses, where there is no bicycle rate
- Use of home: a sole trader claims £10, £18 or £26 a month by hours worked, or a fair business proportion of bills. A company can instead pay a director £6 a week

04 Equipment and capital allowances

Larger or longer-lasting items such as computers, tools and machinery are usually claimed through capital allowances rather than as everyday expenses. Many qualifying purchases can be fully relieved in the year of purchase.

GOOD TO KNOW
Capital allowances follow different rules to running costs, so flag big purchases to your accountant before year-end.

05 What is NOT allowable

Some costs feel business-related but are specifically disallowed for tax. Adding these back protects you in an enquiry.

- Entertaining clients or customers
- Ordinary commuting between home and a regular workplace
- Personal items, clothing (unless protective or a uniform) and fines
- The private-use share of any mixed cost

06 Records and the bigger picture

Keep receipts, invoices and a mileage log; digital bookkeeping makes this far easier and is increasingly required. For sole traders, a £1,000 trading allowance can be claimed instead of actual expenses if your costs are low, and every pound of allowable expense reduces profit taxed at Corporation Tax rates or against your income.

GOOD TO KNOW

No receipt, no claim. Good records are the difference between a deduction that stands and one that does not.

Common questions

Can I claim expenses I paid before the business started?

Yes. Pre-trading costs incurred wholly and exclusively for the business in the seven years before you start are usually treated as incurred on day one of trading.

Do I need a receipt for every expense?

You should keep evidence for everything you claim. Without a receipt or other record, HMRC can disallow the expense if your return is checked.

Is it better to claim the trading allowance or actual expenses?

If your allowable expenses are below £1,000, claiming the trading allowance is usually simpler and more beneficial. If your costs exceed £1,000, claim actual expenses instead.

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For guidance only — this factsheet does not constitute professional advice and is not a substitute for advice based on your specific circumstances. Whilst every care has been taken in its preparation, it may contain errors for which we cannot be responsible. Figures are for the 2026/27 UK tax year (England, Wales & Northern Ireland) and may change. Scottish taxpayers face different income tax rates; dividend rates are UK-wide. Last reviewed 21 August 2026.

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