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# TAX TIPS

for the self-employed

Firstly, it must be emphasised that the brief advice given in this article is no substitute for the reliable professional advice you will receive if you engage the services of a qualified accountant. Neither is the article aimed at saving you tax, but hopefully it may assist in ensuring that you are assessed for the correct amount of tax under the law.

“Generally, the higher the amount you claim the more likely it is that you will be asked to prove it.”

## Tip 1. Keep it legal

You can legitimately minimise your tax by:

- Claiming all available allowances and reliefs.
- Claiming tax relief for expenditure incurred “wholly and exclusively” for business purposes.
- Planning your affairs to keep your tax as low as possible.

Illegal acts involve deliberately or dishonestly evading tax by:

- Claiming tax relief for non-business expenses.
- Over-claiming expenses.
- Failing to include all taxable income in accounts/tax returns.

And the consequences if you do? – tax investigations, back tax with interest and penalties, time, hassle, professional fees, and even prosecution and prison.

## Tip 2. Keep all business receipts

All expenditure recorded in your accounts should be supported by original receipts, invoices or similar. Make a note on each one to clarify what it is and why it was incurred. Retain them for at least six years. You will have some unreceipted expenses e.g. bus fares, parking, etc – keep a diary in which you can record these (see use of car).

## Tip 3. Prove business use

Some of your expenses will be mixed, private and business use, and you may be required to justify the amount you claim for business use. You will also



lose relief if you over-estimate your private use. Ideally you should have evidence in support of your estimate, e.g. itemised mobile phone bills. A couple of the later tips cover the more difficult use of home and motor expenses estimates.

**Tip 4. Maintain accurate income records**

Your business may be one where you can invoice for your services. Ensure these are sequentially numbered, and you keep a copy on which you can record payment received. Where your business is mainly cash transactions, if possible purchase a good, reliable till and take daily till readings (retain the till rolls) to support your income records. Failing that, at least cash-up at the end of each day and record your takings in a diary. Remember that cash-based businesses will often be the target for more detailed scrutiny from the Taxes Office, so make sure your records are accurate and supported by evidence.

**Tip 5. Reconcile your business bank account**

Regular monthly reconciliation of your bank account to your income and expenses records is a way of ensuring their accuracy. If you catch any mistakes early enough they will be much easier to correct. As part of the reconciliation process, you must keep evidence of any non-business credits made into the bank account and make a note on the bank statement. This will avoid unpleasant questions should your bank statements be requested as part of a tax investigation.

**Tip 6. Business use of your car**

You must keep track of your car mileage to allow your claim for business use. Keep a diary in which you record your business mileage each day and take an odometer reading at the start and the end of the year. Record all your motoring costs for the year, and you can accurately pro-rata them between business and private use, using the mileage figures. Remember, though, that parking and other motoring fines are NOT accepted as business expenses.

**Tip 7. Business use of home**

The cost of your home "office" is one of the most difficult to estimate and prove, and will also be subject to tax scrutiny. Generally, the higher the amount you claim the more likely it is that you will be asked to prove it. From experience we find that claiming a lump sum of £5 to £10 a week will be accepted as reasonable, provided you do use some space in your home and for a regular amount of time, because the increased costs for electricity and heating alone can often justify your claim.

In conclusion, the tips and advice given above are just a few of those you can expect from your accountant, who would normally expect to be able to manage your tax liability to at least cover their annual fee, which by the way is also a tax allowable business expense.



## ALONE WITH YOUR TAX PROBLEMS?

IS YOUR TAX TOO COMPLICATED TO HANDLE?

DO YOU NEED HELP GETTING THROUGH THE MAZE?

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AS CLIENT CONVENIENCE IS ALWAYS A KEY PRINCIPLE.