by Terry Pinnell

Tax tips

The final deadline to return your tax form is looming, so the time's right to look at some issues that affect you if you work at home or run a small business

Although they put a brave face on it, the Inland Revenue must have been disappointed by the results of its multi-million pound self assessment launch campaign. Despite the cheerful efforts of the aptly named Hector, it turned out that barely half of the eight million of us who were eligible actually sent in the new returns by the first important deadline of 30 September. Many said they were confused by the daunting forms and convoluted rules. Self assessment was originally hyped as making the annual tax chore a lot easier. It would be interesting to see an independent survey aimed at discovering how many tax payers have actually found that to be so. Meanwhile, the other four million have no doubt been struggling on, facing the crucial deadline of 30 January when automatic penalties cut in.

But perhaps you're one of the, arguably more lucky, remaining 22 million, whose income tax is collected at source under the Pay As You Earn (PAYE) system. That's apparently continuing largely unchanged. However, if you're self-employed, or a business partner or company director, then you're almost certainly on the self assessment system. That's true also if you're a PAYE employee or pensioner, but on higher rate tax, or with more complex tax affairs due to investments or overseas affairs – financial affairs, that is.

Many of our readers might be eligible for self assessment. If you use your computer to earn money by working at home, either part or full time, or perhaps to help you run a small business, then you're eligible. If so, there are many issues you might want to consider, together with tips and tools to reduce the annual tax chore. We'll cover these from time to time in this column, starting this month with one that might even cut your tax bill.

It comes down to ensuring that you claim all the allowable business expenses to which you're entitled. Specifically, we're talking here about the figure you enter in box 3.12 on page SE1 of the four-page Self-Employment section. If appropriate, make sure that you include in this total an estimate for the proportion of domestic expense that's attributable to your work.

For example, suppose you've set aside one room of your eight-roomed home as an office and equipped it accordingly. You slave away in it as a home-worker for five or six days a week. Then you should consider claiming at least 10 per cent of all your main utilities and overheads as allowable business expenses. For example, that probably means gas and electricity bills, water and council tax, maintenance, and house and building contents insurance too. If those add up to an annual cost of say £1,500, then that's £150 that you can reasonably claim as due to business for a start.

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Much heftier sums arise when you turn to other areas, for which the proportions might well be reversed. Perhaps £900 of that whopping £1,000 phone bill last tax year could be a legitimate business expense. Similarly, if you use your car partly for business, allowable expenses might be, say, 25 per cent of £2,000 – that's another £500. Adding these contributions, your entry in box 3.12 would be some £1,550. Potentially that could save you £310 at the 20 per cent tax rate, and obviously more if your profits are taxed at 25 per cent or higher rates.

Of course, it's not all good news. There are many more types of expense that are NOT allowable – just look at the 16 types of ‘Disallowable expenses’ listed on page SEN5 of the Self-Employment Notes. Nevertheless, it's often the case that a common-sense approach and a fair tax inspector are all that's needed to optimise your claim, without having to seek the services of an accountant or tax specialist.

Finally, no matter how simple your tax affairs are, keep everything that could have any bearing. That includes records about taxable income, equipment purchases, capital gains and all claimable expenses. Receipts, invoices, tax dividend certificates – keep the lot. For some categories of tax payer, you'll need to keep them for as long as five years. So don't forget to claim on those new filing cabinets you'll need.