

UK Expense Categories – Tax Deductibility with HMRC References

1. TAX DEDUCTIBLE

Category	Examples	Tax Deductible?	HMRC References / Notes
Cost of Sales / Direct Costs	Materials, subcontractors, direct labour, packaging	Yes	Wholly & exclusively rule – HMRC BIM (Business Income Manual)
Office Expenses	Stationery, postage, small equipment, cleaning	Yes	Allowable business expenses – HMRC guidance
Rent & Utilities	Rent, electricity, water, internet (business portion)	Yes (business proportion)	Business use only – HMRC 'wholly and exclusively' rule
Travel & Subsistence	Mileage, train/bus fares, accommodation, meals	Partially	Business travel allowable; entertaining is not – BIM45025
Marketing & Advertising	Website, ads, print media, events	Yes	Allowable cost of advertising and marketing
Professional Fees	Accountant, solicitor (business), consultants	Yes	Professional fees allowable when business-related
Wages & Staff Costs	Wages, NI, pensions, training	Yes	Allowable staff costs per HMRC rules

Category	Examples	Tax Deductible	HMRC References / Notes
Insurance	Public liability, indemnity, employer's liability	Yes	Business insurance premiums allowable
Equipment & Assets	Computers, machinery, furniture	Capital Allowances	Capital Allowances Manual – HMRC
Vehicle & Transport	Fuel, servicing, MOT, tax, lease	Partially	Business proportion only; some capital rules apply
Financial Charges	Bank fees, loan interest, merchant fees	Yes	Allowable financing costs for business
Software & Technology	Software subscriptions, cloud services, licences	Yes	Allowable if used for business
Miscellaneous	Charity donations, gifts, entertaining	Mixed	Client entertainment not deductible – BIM45000

2. NON-DEDUCTIBLE EXPENSES

- Client entertainment and hospitality
- Business entertainment (except for staff events meeting criteria)
- Fines and penalties
- Personal expenses
- Clothing (unless protective/uniform with company logo)
- Commuting costs (home to regular workplace)
- Donations (unless Gift Aid applies)
- Depreciation (use capital allowances instead)

3. IMPORTANT NOTES

⚠ **This is not an exhaustive list** - these categories provide a brief overview of common business expenses for UK businesses. Your specific business may have additional expense types relevant to your industry.

⚠ **This is for indication purposes only** - when in doubt about how to categorise an expense or whether it's allowable for tax purposes, always consult your bookkeeper or accountant. HMRC rules can be complex, and penalties apply for incorrect reporting. Tax deductibility can depend on specific circumstances and how your business is structured (sole trader, partnership, limited company).

⚠ **Review regularly** - it's recommended to review your expense categories at least twice a year (ideally quarterly) to ensure they remain appropriate for your business activities and align with current tax regulations.