REINZA TRAINING

Tax Essentials for the Owner-Managed IT Company

Module RT-102

Allowable Expenses and Capital Allowances

Course Pack

Version v1.1

Content basis: rates, thresholds and allowances for the 2026/27 tax year (corporation tax: financial year beginning 1 April 2026)

This pack contains:
Study guide · Course text · Checklist · Reference list

Contents

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Module RT-102 — Study Guide

Allowable Expenses and Capital Allowances for an IT Services Company

Programme: Tax Essentials for the Owner-Managed IT Company
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1. What this module covers

RT-102 deals with what a company can deduct in arriving at its taxable profit — the allowable expenses and the capital allowances. It is the second of three modules, and it sits between the other two by design.

Module RT-101 was about how money leaves the company and reaches the director. This module is about the step before that: the costs the company takes off its income before it ever reaches a profit figure. Module RT-103 then takes that profit figure and turns it into a tax liability.

The module is built around one test, one distinction, and nine categories:

Section	Subject	The question it answers
A	The principle	What makes any expense allowable, and whose purpose is tested
B	Working from home	Why a director is not a sole trader here, and the three routes
C	Equipment, hardware and software	Capital for use, stock for resale, and how software is treated
D	Capital allowances in depth	How relief on capital spending actually works — the longest section
E	Vehicles and mileage	Company car against private car, and why electric status can materially change the analysis

Section	Subject	The question it answers
F	Phone and broadband	Why contracting structure matters for mobile phones, and why broadband is stricter
G	Travel and subsistence	Temporary against permanent workplace, and a boundary specific to IT
H	Entertaining and staff costs	Ordinary client entertaining and the limited staff exemptions
I	Training	Why the sole-trader rule misleads, and what an employer can fund
J	Records and evidence	What supports a deduction, and for how long

All worked examples use the same fictitious company as the rest of the programme, Brackford IT Support Limited — a sole director, working from home, buying equipment, running a car, with some hardware resale.

2. What you have been sent

Seven items are supplied: four principal deliverables and three supporting materials, each doing a different job.

#	Item	What it is for	Time
1	**Training video**	The module taught visually, with narration. The fastest route through.	approx. 40 min
2	**Slide deck**	The video’s slides, with supporting speaker notes.	—
3	**Course text**	The content master and complete written treatment. Goes further than the video, especially on the calculations, and is designed to be read on its own.	90–120 min
4	**Study guide**	This document.	5 min
5	**Checklist**	The practical review points from the module, in one place.	10 min
6	**Self-assessment**	Ten questions to complete and return, with answer commentary.	30–45 min
7	**Reference list**	The published official sources the content is based on.	—

Recommended study time for the module: approximately 3 hours.

RT-102 is the densest of the three modules. There is more detail here — three separate first-year allowances, a capital allowances pool mechanism, a company car benefit scale, two different mileage figures for tax and National Insurance — so it repays being taken in more than one sitting.

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3. The order to use them in

Step one — read this guide. You are here.

Step two — watch the video straight through. Do not take notes the first time. The module has a clear spine — one test, then the categories — and it is easier to see if you let it run. There are two points where the narration invites you to pause and work something out; take those if you like.

Step three — read the course text. This is where the module earns its fee. Every calculation is set out in full, and several are worked further than the video takes them — the capital allowances pool, the electric-versus-petrol car comparison, the two mileage figures. If you have time for only one written item, this is it.

Step four — work through the checklist. It turns the module into questions you can ask about a real company.

Step five — complete the self-assessment and return it. Ten questions. Attempt them before reading the commentary. Reinza Training will return short written comments.

Step six — keep the course text. The most likely use of these materials is a year from now, the next time a purchase or a car decision comes up.

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4. If you are short of time

A workable split for a dense module:

Sitting	What to do	Time
First	Video, straight through	40 min
Second	Course text, Sections A to C (the principle, home, equipment)	45 min
Third	Course text, Section D (capital allowances) and E (vehicles)	60 min
Fourth	Course text, Sections F to K, then checklist and self-assessment	60 min

If you are shorter of time than that, the order of value is: **video, then course text Section D, then Section E.** Capital allowances and vehicles are where the largest numbers, and the most common expensive mistakes, are found.

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5. Three things to look out for as you go

Two questions, always in order. Every cost faces the same two questions: is it capital or revenue, and — for a revenue cost — is it wholly and exclusively for the trade. Get into the habit of asking them in that order and most of the module answers itself.

The deduction and the benefit are different questions. When the company pays for something the director uses, there are two separate questions: can the company deduct it, and does the director have a taxable benefit in kind. The company car is a case where the answer to the second can be financially significant. Watch for both throughout.

Many of the figures changed in 2026. The main pool writing-down allowance fell from eighteen per cent to fourteen. The mileage rate rose from forty-five pence to fifty-five, for the first time since 2011. The electric company car benefit rose to four per cent. Older articles and templates have not all caught up, so the course text flags each change where it appears.

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6. What this module does not do

It teaches rules of general application, using a fictitious company. It does not examine any particular company's accounts, purchases or vehicle, and it produces no statement about any particular company's tax position.

Where the material identifies a decision point — a formal home rental, a car purchase, a long single-client engagement, a substantial software purchase — the appropriate next step is to obtain independent professional advice on the specific facts.

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7. What comes next

Module RT-103 — Corporation Tax, VAT Thresholds and the Annual Compliance Cycle. The profit figure this module helps produce is turned into a corporation tax liability; the VAT registration threshold and its consequences are worked through; and the four filing regimes that run at once are set out. RT-103 also includes a printable annual compliance calendar.

Reinza Limited, trading as Reinza Training. Module RT-102, study guide, version v1.1.

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Module RT-102 — Course Text

Allowable Expenses and Capital Allowances for an IT Services Company

Programme: Tax Essentials for the Owner-Managed IT Company
Module reference: RT-102
Document: Course text
Version: v1.7
Content basis: rates, thresholds and allowances for the 2026/27 tax year (corporation tax: financial year beginning 1 April 2026)

How to use this course text

This document is the complete written treatment of Module RT-102. It is not a transcript of the training video and it is not a printed copy of the slide deck. It has been written so that it can be read and understood entirely on its own, and so that it remains usable as a reference in later years.

RT-102 is the second of three modules. Module RT-101 dealt with how money leaves the company and reaches the director. This module deals with what happens **before** that: what the company can deduct in arriving at the profit figure in the first place. Module RT-103 then turns that profit into a tax liability.

The module materials are designed to be used in this order: study guide, then training video, then this course text, then the checklist, then the self-assessment, then the reference list.

Every calculation is set out in full. Where a figure is derived rather than quoted, the derivation is shown, because rates change and a method survives a change that a memorised number does not. This matters more in RT-102 than in either other module, because **more of RT-102's figures changed in 2026 than in any other part of the programme** — the main pool writing-down allowance, the mileage rate and the company car benefit percentage all moved with effect from April 2026.

This document describes rules of general application, using a fictitious company. It does not take account of the circumstances of any particular company or person, and it does not tell any reader what to do. Where a decision point is identified, the appropriate step is to obtain independent professional advice on the specific facts.

Contents

Key figures for 2026/27

Every figure below is stated for the tax year 6 April 2026 to 5 April 2027, or for company accounting periods in the financial year beginning 1 April 2026, as the context requires. Several of these figures changed with effect from April 2026, and those are flagged, because older published material still shows the previous number.

Item	2026/27	Note
Annual investment allowance (AIA)	£1,000,000	Maximum for a normal 12-month period; 100% relief on qualifying plant and machinery; cars excluded
Full expensing (companies only)	100% first-year allowance	New and unused main-rate plant and machinery, no cap
Special rate first-year allowance (companies)	50%	New and unused special-rate assets
40% first-year allowance	40%	Permanent from 1 January 2026; new and unused main-rate plant and machinery; useful where full expensing and AIA are unavailable or not preferred; cars and second-hand assets excluded
Main pool writing-down allowance	**14%**	**Reduced from 18% from 1 April 2026** (companies); reducing balance
Special rate pool writing-down allowance	6%	Unchanged; reducing balance
First-year allowance, new zero-	100%	Extended to 31 March 2027

Item	2026/27	Note
emission cars		
Company car benefit, fully electric (0 g/km)	**4%** of taxable car value	Up from 3% in 2025/26; rises to 5% in 2027/28
Company car benefit, 1–50 g/km (incl. plug-in hybrids)	4% to 16% of taxable car value	By electric-only range; a temporary easement can treat some higher-CO2 PHEVs as 1 g/km for the benefit only
Company car benefit, over 50 g/km (petrol/diesel)	17% to 37% of taxable car value	By CO2 band; 4% diesel supplement if not RDE2, capped at 37%
Van benefit charge (private use)	£4,170	Where the restricted-private-use exemption does not apply; zero-emission vans: nil
Van fuel benefit charge	£798	Headline charge where private fuel is provided and restricted private use does not apply; nil for a zero-emission van and can be reduced to nil if all private fuel is made good
Car fuel benefit multiplier	£29,200	Applied at the same CO2 percentage as the car
Approved mileage, cars and vans, first 10,000 miles	**55p**	Income-tax AMAP rate; up from 45p from 6 April 2026
Approved mileage, cars and vans, above 10,000 miles	25p	Income-tax AMAP rate; for NIC purposes the 2026/27 mileage rate is 55p for all business miles
Approved mileage, motorcycles / bicycles	24p / 20p	Unchanged; no 10,000-mile step
Passenger payment	5p per passenger per mile	Employees only
Advisory electric rate, company EV	7p home / 15p public	From 1 June 2026; per business mile; reviewed periodically, so check the rate in force
Working-from-home flat rate	£6 per week	£312 a year; no records of actual cost required
Trivial benefits exemption (employee side)	£50 per benefit	Director of a close company: capped at £300 a year in total
Annual staff-function exemption (employee side)	£150 per head per year	Not a CT deduction limit; all-or-nothing for an event outside the exemption
Corporation tax — small profits rate / effective marginal rate / main rate	19% / 26.5% / 25%	See note below; carried over from RT-101
Class 1A National Insurance on	15%	Employer only

Item	2026/27	Note
benefits		

Two figures in this table need a word of warning, because they are the ones most likely to trip up anyone using older material.

The main pool writing-down allowance is now 14%, not 18%. It fell on 1 April 2026 for companies. If a company's accounting period straddles that date, a hybrid rate applies for that period, blended by reference to the number of days each side of the change.

The approved mileage rate is now 55p, not 45p. The increase was announced after the start of the tax year but applies **retrospectively from 6 April 2026**; the rate had stood at 45p since 2011. This is the first change in fifteen years, so much older material still says 45p.

A note on the corporation tax figures. The 19% and 25% are the two **statutory** rates — the small profits rate on profits up to £50,000 and the main rate on profits above £250,000. The 26.5% is **not** a third statutory rate: it is the *effective marginal rate* that applies to profits in the £50,000–£250,000 band once marginal relief is taken into account. The £50,000 and £250,000 limits are also reduced for associated companies — broadly, they are divided by **one plus the number of other associated companies** — and are proportionately reduced for short accounting periods. Module RT-103 works all of this through; in RT-102 the figures are used only to value deductions.

The illustrative company

RT-102 uses the same fictitious company as the rest of the programme. Nothing in the following, and no figure used anywhere in these materials, relates to any real company or person.

Brackford IT Support Limited

Trade	Managed IT support for small businesses, with project work and some hardware resale
Director and sole shareholder	Sam Ellis
Employees	None other than the director
Accounting year end	31 March
Workplace	Sam's home, a four-room house, with visits to client premises
Turnover, year to 31 March 2027	£86,400
VAT	Not registered (dealt with in Module RT-103)

In Module RT-101 the company's operating costs "before director remuneration" were taken as a single figure of £20,000. RT-102 now opens up **selected categories that can sit inside that operating-cost figure**, together with capital purchases that sit outside ordinary revenue expenses because they are relieved differently. The worked items below are teaching examples, not a line-by-line reconciliation of the entire £20,000.

For this module, Sam's spending in the year is set out as follows. Each item is dealt with in the section shown.

Item	Amount	Section
Home as office (Sam works from the spare room)	to be determined	B
Two laptops and a server, bought new	£6,400	C, D
Software subscriptions	£2,900	C
A car, used for client visits and privately	to be determined	E
Mobile phone and home broadband	£1,320	F
Train and hotel for a three-day client project	£680	G
Taking a prospective client to lunch	£140	H
A cloud-certification course	£1,500	I

These figures are used to build the worked examples. They are illustrative and fictitious.

A. The principle: what makes an expense allowable

A.1 One test, applied everywhere

Almost every **company-deduction** question in this module starts with a single statutory test. Before going near the individual categories, it is worth stating the test plainly, because a reader who holds it firmly can work out most of the answers without being told them.

For a company's trading expense to be deductible in computing its taxable profit, it must be incurred **wholly and exclusively for the purposes of the trade**. The words come from section 54 of the Corporation Tax Act 2009, and they have been litigated for over a century.

This module concentrates on categories that create recurring issues for an owner-managed IT company — homeworking, equipment and software, vehicles, travel, entertaining and training. It is **not an exhaustive catalogue of every possible business expense**. Ordinary costs such as genuine business insurance, accountancy fees, advertising, bank charges or other staff costs still start from the same general principles, subject to any specific rule that applies to the particular category.

Two words in that phrase do the work.

Wholly is about amount. It asks whether the whole of the expense was for the trade.

Exclusively is about purpose. It asks whether the trade was the *only* purpose — not the main purpose, not the substantial purpose, the only one.

A.2 The duality problem — and whose purpose matters

The exclusivity requirement is strict, and it produces what is usually called the **duality** problem. But in a company module there is an important preliminary question: **whose expenditure and whose purpose are being tested?** Section 54 CTA 2009 tests the purpose for which the **company** incurs its expenditure. That is not always the same question as whether Sam could deduct the same cost personally.

The classic illustration of duality is ordinary clothing. In *Mallalieu v Drummond* (1983), a self-employed barrister could not deduct the cost of ordinary professional clothing: even though it was bought for work, it also served the inseparable ordinary purpose of warmth and decency. HMRC's own guidance is explicit that this clothing analysis concerns the expenses of a self-employed trader (and similar employee-expense principles exist separately); it should **not** simply be transplanted to expenditure incurred by a company.

If Brackford itself buys ordinary clothing for Sam, the company-side question is whether it incurred the cost for the trade — for example as part of Sam's remuneration. Genuine employee and director remuneration costs, including benefits in kind, are **normally** deductible for a trading company, although the payer's purpose still has to be considered. Sam's side is separate: ordinary employer-provided clothing can create a taxable benefit unless a specific exemption or deduction applies. Protective clothing and genuine uniforms have their own employee-side rules.

That distinction is central to this module: **duality still matters, but do not use a sole-trader or employee personal-expense case to answer the company's deduction question without first identifying the payer and the relevant tax regime.**

A.3 Apportionment: where a cost can genuinely be separated

A mixed-purpose cost is not automatically all-or-nothing. Where a single payment or invoice contains **separable** elements and one part is incurred wholly and exclusively for the company's trade while another part is not, a just and reasonable division may be possible and the trade part can be allowed. Where the purposes are inseparable, the general wholly-and-exclusively rule may deny the expense — subject, as always, to any more specific statutory rule.

For an owner-managed company, however, a simple "business-use percentage" is often the wrong mental model. If the company pays for something that Sam also uses privately, the analysis commonly becomes the two separate questions in A.6: **what deduction does the company get, and what employment-income or benefit-in-kind consequence arises for Sam?** The mobile phone and company-car rules later in the module are examples of specific statutory regimes that do not simply follow a private-use percentage.

The homeworking section makes the same point from another angle. Sam's household bills are **Sam's** costs, not automatically Brackford's mixed-use expenses. Brackford cannot take a sole trader's room-by-room apportionment of Sam's council tax, mortgage or rent and treat that as the company's own deduction. Section B sets out the employer homeworking routes and the separate formal-rent route instead.

So the practical sequence is:

- identify **who incurred the cost** and for what purpose;
- if the company's own cost contains genuinely separable trade and non-trade elements, consider apportionment;
- if the company provides something to a director or employee with private use, check the **company deduction and the employee tax treatment separately**, including any category-specific rule.

A.4 The distinction that runs underneath everything: revenue against capital

There is a second dividing line, and it matters as much as the first. It is the line between **revenue** expenditure and **capital** expenditure.

Revenue expenditure is the cost of running the business day to day — the things that are consumed in the period. Software subscriptions, stationery, the electricity bill, staff wages. A company's taxable trading profit starts from its accounts drawn up under normal accounting standards, so revenue expenditure that passes the wholly-and-exclusively test is generally relieved **through the accounts, in accordance with the applicable accounting treatment, subject to any specific tax adjustments** — which for most day-to-day costs means the year in which they are incurred, but not invariably (a payment covering more than one period, for instance, is normally spread to match).

Capital expenditure is money spent acquiring, or improving, an asset that will be used in the business over more than one period — a laptop, a server, a vehicle, a piece of machinery. Capital expenditure is **not** deductible as a trading expense at all. The bar is in section 53 of the Corporation Tax Act 2009: no deduction is allowed for items of a capital nature.

That sounds like bad news for a company that spends heavily on equipment. It would be, were it not for the separate reliefs that exist precisely to give tax relief on capital spending. For most physical assets — plant, machinery, equipment, vehicles — that relief is **capital allowances**, and Sections C and D work them in depth. But capital allowances are not the *only* capital tax regime, and it is a mistake to assume every capital cost goes through them. Acquired software rights, for example, usually fall within a different regime for a company — the intangible fixed assets rules in Part 8 of the Corporation Tax Act 2009, where relief follows the accounting treatment (Section C.3). So the accurate statement is: if a cost is capital, identify **which** capital regime applies — often capital allowances for plant and machinery, but not always.

The practical importance of the revenue/capital line is that it decides **which system** a cost goes through. Get it wrong in the obvious direction — treating a capital purchase as a revenue expense — and the deduction can be denied on enquiry, with interest on any underpaid tax and, depending on the circumstances and behaviour involved, potentially a penalty. Get it wrong the other way — treating a revenue cost as capital — and relief may be spread over years when it could have been immediate.

A.5 The two questions, in order

So every item of expenditure faces two questions, and the order matters:

1. **Is it capital or revenue?** If capital, identify the relevant capital tax regime — usually capital allowances for plant and machinery (Sections C and D), but sometimes another, such as the intangible fixed assets rules for acquired software. If revenue, continue.
2. **Is the revenue expense wholly and exclusively for the trade** — or, if it has a private element, can it be apportioned? If it passes that test, it is **generally** deductible through the accounts, but a specific tax rule can still modify or deny relief. Client entertaining is the clearest example later in the module: it may be commercially and wholly for the trade, yet a specific statutory rule disallows the deduction.

Hold those two questions in mind and the nine categories that follow become applications of them, not a list to memorise. Then check whether the category has a specific rule — an exemption, restriction or disallowance — that overrides the general result.

A.6 The company's deduction and the director's benefit are two different things

One point causes more confusion than any other in an owner-managed company, and it is worth isolating before the detail begins.

When the company pays for something that Sam uses, there are **two separate tax questions**, and they have different answers:

1. **Can the company deduct the cost** against its corporation tax? This is the wholly-and-exclusively question above.
2. **Does Sam have a taxable benefit in kind** as a result? This is a question about Sam's employment income, and it has its own rules.

These are not the same question, and the answer to one does not decide the other. A company can pay for something, deduct it in full, and yet create a taxable benefit for the director on which both Sam and the company pay further tax. A company car is the clearest example: the company normally gets relief for its running costs and, where it **buys** the car, capital allowances on the cost (where it leases instead, the rental-deduction rules in Section E apply). At the same time Sam can be taxed on a benefit in kind and the company pays Class 1A National Insurance on that benefit.

Throughout this module, where a cost creates a benefit in kind as well as a deduction, both are flagged. The single most common and most expensive error in this area is looking only at the company's deduction and forgetting the benefit on the other side.

Watch point: whenever the company pays for something with any private use, ask both questions — the deduction and the benefit — not just the first.

B. Working from home

B.1 Why this is different for a company

This is the section most often got wrong, because the rules for a **director or employee** working from home are completely different from the rules for a **self-employed** person, and most published guidance is written for the self-employed.

A sole trader working from home apportions their household running costs — a proportion of council tax, mortgage interest, rent, insurance, repairs — usually by reference to the number of rooms used for business and the time they are used. That is the "proportionate cost" method, and it is a self-employed rule.

Sam is not self-employed. Sam is a **director and employee** of Brackford IT Support Limited, a separate company. Sam may perform much of Brackford's work from the house, but that does not make Sam's household bills the company's own trading expenses. The company and Sam are separate persons, so the employer homeworking rules — and, if used, a separate rental arrangement — have to be applied rather than simply importing a sole trader's room-by-room expense apportionment.

For the household costs considered here, there are three main routes. They are not alternatives to be mixed; each is a distinct basis with its own conditions. (They are not the *only* exemptions that can ever touch homeworking — the reimbursement exemption in Section F.2 is another — but for the ordinary household running costs this section is about, these are the three that matter.)

B.2 Route one: the flat rate

The simplest route. The company pays Sam **£6 per week** — £312 a year — as a homeworking allowance, and no records of actual costs are needed.

Amount	£6 per week, £312 a year
Records required	No evidence of actual household cost required (but keep the homeworking arrangement and the payment records)
Deductible for the company	Yes
Taxable on Sam	No
Condition	There must be a genuine homeworking arrangement

This is deductible for the company and tax-free for Sam. It is small, but it is certain, it needs no evidence *of actual cost*, and it creates no benefit in kind. For most owner-managed IT companies where the director works from home some of the time, this is the sensible default.

Two conditions. First, homeworking must be genuine — there must be an actual arrangement, formal or informal, under which Sam works from home, not merely a choice to take work home occasionally. Second, "no records required" means no records of *actual cost*; the company should still keep evidence of the **homeworking arrangement** and of the **payments made**, since those are what support the tax-free treatment if it is ever questioned.

One change worth knowing about, effective **6 April 2026**: an employee can no longer make their own claim, against their income, for unreimbursed additional household costs of working from home (the old section 336 route was closed by section 360B). What survives is the **employer** side — the tax-free £6-a-week payment, and reimbursement of genuine additional cost, under section 316A. The practical message for an owner-manager is that the value now comes from the **company** paying the allowance, not from Sam trying to claim household costs personally.

B.3 Route two: actual additional household costs

The company can instead reimburse the **actual additional** household costs that arise **because** Sam works from home. The key word is *additional*.

This route reimburses the marginal cost of working from home — for example extra heating and lighting, increased metered water use, additional internet charges where working from home genuinely increases the tariff, or the cost of business telephone calls that would not otherwise have been incurred. It does **not** reimburse a proportion of costs the household would have paid anyway.

This is the point that trips people up, so it is worth being explicit. The following are **not** additional costs and cannot be reimbursed tax-free to a director on this basis:

- **council tax** — payable on the house regardless of whether Sam works there;
- **mortgage interest** — payable regardless;
- **rent** — payable regardless;
- **buildings insurance** — payable regardless;
- **water rates** — in the ordinary case, unchanged by working from home.

These are costs the household bears anyway. Working from home does not add to them, so there is nothing additional to reimburse. Trying to put a proportion of the mortgage through the company as a homeworking cost is applying the self-employed rule to an employee, and it is wrong.

What *can* be reimbursed on this basis is genuinely modest — the extra energy and the like — and to reimburse more than the £6 flat rate the company should keep evidence of the additional cost. For most directors the calculation is not worth the trouble over the flat rate, which is exactly why the flat rate exists.

B.4 Route three: a formal rental agreement

The third route is entirely different in character. Instead of the company reimbursing Sam's costs, **Sam rents part of the house to the company** under a formal licence or rental agreement, and the company pays rent.

This route does **not** turn Sam's council tax, mortgage interest, insurance or repairs into Brackford's own expenses. Instead, it creates a separate **property/licence arrangement**: Brackford pays a commercial rent for the space, and Sam then computes the separate property-income result under the property rules. Household costs may be relevant on Sam's side only to the extent those rules allow them. The arrangement therefore comes as a package, and three consequences have to be weighed together:

1. **The company deducts the rent** as a business expense, reducing its corporation tax. Good.
2. **Sam receives rental income personally**, which is taxable on Sam as property income and must be brought into account and reported to HMRC as required. The rent charged should be a commercial, market rate. Because the payment comes from Sam's own employer and close company, the **£1,000 property allowance is not available** for this income. After deducting the allowable property-business expenses, the taxable profit on the rent may be small, but not every household cost is necessarily deductible against it; **finance costs have their own rules and should not simply be assumed to be fully deductible**.
3. **A capital gains tax / Private Residence Relief risk on the house.** Private Residence Relief can be restricted where a substantial part of the home is no longer used as the owner's residence — for example because it is used exclusively for the office or employment — and granting the company formal rights over part of the property makes the facts more important, not less. Some mixed residential and work use may preserve relief on the relevant area, but a token amount of private use should not be treated as a guaranteed solution. The precise effect depends on the agreement, the extent of the space involved and how it is actually used over the ownership period.

A formal rental agreement can be the right answer where a director makes substantial space available to the company over a long period. It is a route that **should not be entered into without advice on the specific facts**, because both the property-income computation and the Private Residence Relief consequences depend on the legal arrangement and the actual use of the space.

B.5 The three routes side by side

	Flat rate	Actual additional cost	Formal rent
What the company pays	£6/week	The extra energy etc.	A market rent
Records needed	No actual-cost evidence; keep the homeworking arrangement and payment records	Evidence of the additional cost	A written agreement; a rent calculation
Taxable on Sam	No	No	Yes — as property income
Fixed household costs reimbursable as such?	No	No	No — the company pays commercial rent; Sam separately applies the property-income expense

	Flat rate	Actual additional cost	Formal rent
			rules
Capital gains tax risk on the home	No	No	Possible — depends on the agreement and the extent/nature of non-residential or exclusive use
Typical use	The default for most directors	Where the extra cost is clearly more than £6/week	A substantial, long-term business use of the home

Watch point: the sole-trader proportionate-cost method — putting a share of council tax, mortgage or rent directly into the trade calculation — does not transfer to a director's company. A formal rental arrangement is a different route altogether: the company pays **rent**, while the director separately computes property income under the property rules.

B.6 Brackford: the worked position

Sam works from the spare room most days. There is no formal rental agreement, and Sam does not want the capital gains tax complication on the house.

The company therefore pays the **£6 per week flat rate**: £312 for the year, deductible for the company, tax-free for Sam, with no evidence of actual household cost required (the company still keeps the homeworking arrangement and the payment records). It is modest, but it is clean, and it is the figure carried into the year's accounts.

Had Sam wanted more, the honest position is that the genuine *additional* energy cost of working from the spare room is unlikely to be much above the flat rate, and evidencing it would take more effort than it is worth. The formal rental route was set aside because of the capital gains risk. This is a realistic outcome for a one-person IT company, and it is worth stating plainly: **the home-office deduction for a director is usually small, and attempts to make it large usually import problems bigger than the tax saved.**

C. Equipment, hardware and software

C.1 The dividing line, applied to an IT company

An IT support company buys four kinds of thing, and each is treated differently:

- **consumables and day-to-day supplies** — printer ink, stationery and other items actually consumed in the business: revenue expenditure, relieved through the accounts; a cheap but durable item does not become revenue merely because it costs little (C.2);
- **equipment that lasts, for the company's own use** — the laptops, servers, monitors and network hardware the business uses to do its work: capital expenditure, relieved through capital allowances (Section D);
- **hardware bought to sell on to clients** — servers, laptops or kit the company buys as part of a resale or supply-and-install job: this is **trading stock**, not capital. It is not plant and machinery and does not go through capital allowances at all. It goes through the accounts as the cost of goods sold, deducted against the sale it relates to;
- **software** — which straddles the line and needs its own rule.

The first is straightforward. The second is the subject of Section D. The third is the one an IT company most easily gets wrong, and it is worth pausing on. The fourth is dealt with under software below.

The same physical object can be capital or stock depending on why it was bought. A server the company installs in its own office to run its systems is fixed capital — plant and machinery, capital allowances. An identical server the company buys in order to sell on to a client, at a margin, is trading stock — cost of sales, matched to the sale. What decides it is not the object but its purpose: is it something the business keeps and uses, or something it holds to sell? For a company like Brackford, which uses some equipment itself and resells other equipment to clients, both categories are live, and each purchase has to be put in the right one.

This section deals with the boundary cases and with software.

C.2 When is a purchase "capital"?

There is no single price threshold in law. The question is whether the item is of lasting benefit to the trade — whether it is an asset the business will use over more than one accounting period.

In practice the working test is function and durability, not cost — but it is worth being precise about *why* small items are treated simply, because this module is about the capital/revenue distinction and the reasoning matters. A £30 keyboard used for years is, strictly, a **capital** item; its character does not change because it is cheap. What happens in practice is that very small fixed assets are often expensed in the accounts on **materiality** grounds — an accounting concept, not a tax one — and HMRC does not normally seek adjustments for trivial amounts. That practical treatment does not alter the underlying capital character of the expenditure; it is a de minimis convenience, not a reclassification. For material purchases — a £1,500 laptop, a £6,000 server — there is no such shortcut: they are capital, and they go through capital allowances (where, as the next section shows, the AIA usually gives 100% relief in the year anyway).

For an IT company the useful rule of thumb is: **if it is a physical thing you would still own and use next year, treat it as capital and put it through capital allowances** — where, as Section D shows, the annual investment allowance usually gives 100% relief in the year anyway, so the practical timing is often the same.

C.3 Software: the three cases

Software is the awkward one, because it can be revenue or capital depending on how it is bought.

Subscription software — Microsoft 365, a cloud helpdesk tool, an accounting package paid monthly or annually. This is **revenue** expenditure: the company is buying the use of the software for a period, not an enduring asset. Relief follows the accounting treatment, so a subscription is normally charged over the period to which it relates; an annual payment that straddles the year end may therefore be carried forward in part as a prepayment rather than deducted wholly on the payment date. This is now how most business software is bought, and it is the simplest case.

Software bought outright — a perpetual licence for a substantial package, paid once and capitalised. Here the treatment for a **company** is more involved than for a sole trader, and it is a point on which general guidance often oversimplifies. For companies, the **intangible fixed assets regime** in Part 8 of the Corporation Tax Act 2009 generally takes precedence over the capital-allowances regime for capitalised software, with tax relief broadly following the relevant accounting debits subject to the detailed Part 8 rules. Capital allowances can still apply in specified cases — notably where software is treated as part of the cost of related hardware for accounting purposes, or where the company makes the statutory election to take qualifying software expenditure out of Part 8 and into capital allowances. The practical point for a reader is not to master the boundary but to know it exists: **outright-purchased software in a company is not simply an annual-investment-allowance item by default**, and a substantial software purchase is a point to take advice on.

Software developed or heavily customised — where a company pays to have bespoke software built. This is more complex, can involve the intangible fixed assets regime rather than capital allowances, and is beyond the scope of a general module. It is flagged here only so that a reader who is commissioning bespoke software knows to take advice.

For Brackford, the £2,900 of software is all subscriptions — cloud tools and monthly licences — and the worked example assumes the whole £2,900 is charged in the accounts for the year to 31 March 2027. On those facts it is **revenue expenditure, deducted in full** for that year.

C.4 Personal use of company equipment

If the company owns a laptop and Sam uses it partly for private purposes, does a benefit in kind arise?

For most equipment the answer is managed by a specific exemption. Where equipment is provided away from the employer's premises, the employer must provide it for the **sole purpose of enabling the employee to perform the duties**, the employee must use it in performing those duties, and any private use must be **not significant**. A laptop that Brackford provides so Sam can do the company's work, and that Sam uses only occasionally for personal email or browsing, can fall within this exemption: the employer's purpose is work and the private use is incidental, so there is no benefit to report.

The exemption does real work here, because without it every director with a company laptop could have a benefit in kind to calculate. The conditions are not merely that business use is greater than private use: the employer's **sole purpose in providing the equipment must be work**, and any private use must then be not significant.

Where private use *is* significant — a games console, a television, equipment bought largely for a director's private enjoyment — the exemption does not apply, a benefit in kind arises, and the two-question analysis of A.6 is back in play.

C.5 Brackford: equipment and software this year

Item	Amount	Treatment
Two laptops and a server, new	£6,400	Capital — into capital allowances (Section D)
Software subscriptions	£2,900	Revenue — charged to the accounts and deducted in full this year on the facts assumed
Private use of the laptops	—	Not significant — no benefit in kind

The £6,400 is carried into Section D, where its capital allowances treatment is worked through. The £2,900 subscription charge is deducted this year on the accounting facts assumed above.

D. Capital allowances in depth

D.1 What capital allowances do

Capital expenditure is not deductible as a trading expense (Section A.4). Capital allowances are the separate relief that gives tax relief on it instead. For plant and machinery, the accounts will normally capitalise the asset and may charge **depreciation** over its useful life; in the corporation-tax computation that accounting depreciation is normally **added back**, and the capital-allowance deduction is claimed instead. Capital allowances therefore translate qualifying capital cost into tax relief — sometimes all at once, sometimes spread over years, depending on the asset and the allowance claimed.

For an IT company the practical headline is simple, and then the detail matters for the cases where the headline does not apply. The headline: **most equipment an IT company buys gets 100% relief in the year of purchase**, through the annual investment allowance or full expensing. The detail: cars are excluded from both, and once you know why, the whole system falls into place.

D.2 The five routes to relief, in the order you consider them

There are five ways capital expenditure on plant and machinery can be relieved. They are not a forced sequence: where an asset qualifies for more than one, the company **may choose** which allowance to claim, and how much of it — a claim can be made in full, in part, or not at all. For most owner-managed companies the choice is easy and the annual investment allowance is the natural first port of call, but the word to hold on to is *choose*, not *must*. The order below is the order in which it is usually worth **considering** them, not a rule that the first available one must be used.

1. Annual investment allowance (AIA) — 100%, up to £1 million for a normal 12-month chargeable period.
The workhorse, and the one an owner-managed company will usually reach for first. It gives a 100% deduction in the year of purchase on most plant and machinery, up to a maximum of £1 million for a normal 12-month chargeable period. It applies to new *and* second-hand assets. It does **not** apply to cars. The maximum is proportionately reduced for a shorter chargeable period, and certain groups or related companies under common control may have to share a single AIA. For Brackford's 12-month period and the modest expenditure in this example, none of those limits is close to binding, so the AIA gives full relief immediately.

2. Full expensing — 100%, no limit (companies only).
A 100% first-year allowance for **companies** on **new and unused** main-rate plant and machinery, with no upper limit. Cars are excluded, and the normal first-year-allowance **leasing exclusion** also applies (subject to specific exceptions, such as certain background plant in leased buildings). It matters where spending exceeds the £1 million AIA, or where a company wants to preserve its AIA for second-hand assets that full expensing cannot cover. For most owner-managed companies the AIA already does the job, so full expensing rarely changes the answer — but it is there, it is permanent, and it is companies-only, which is one genuine advantage a company has over a sole trader.

3. The 50% first-year allowance (companies only).
The companion to full expensing, for **special-rate** assets. Where a company buys new and unused special-rate plant and machinery — integral features such as heating, wiring or air conditioning, and other special-rate items — it can claim a 50% first-year allowance, with the remaining 50% normally added to the special rate pool in the following accounting period, to be written down at 6% thereafter. Cars are excluded and, as with full expensing, the normal leasing exclusion applies subject to specific statutory exceptions. Like full expensing, it is companies-only and has no cap. For an owner-managed IT company it rarely arises, because such businesses seldom buy special-rate assets outside the AIA limit, but it is the correct treatment where they do, and it is why the key-figures table lists it.

4. The 40% first-year allowance.
Introduced on 1 January 2026 as a permanent allowance. It gives 40% relief on qualifying **new and unused main-rate plant and machinery** in the year, with the remaining 60% normally added to the main pool in the following accounting period. Cars and second-hand assets are excluded. It is useful mainly for businesses that cannot use, or choose not to use, full expensing — including unincorporated businesses and, in appropriate

cases, assets bought for leasing. For an owner-managed company buying ordinary equipment within the AIA limit, it is not needed. It is included here for completeness.

One technical point links the 40% and 50% allowances to the earlier statement that claims can be partial. The rule that defers the **unrelieved balance** to the following period applies to the expenditure on which the 40% or 50% FYA was actually claimed. If the taxpayer chooses to claim the FYA on only **part** of the qualifying expenditure, the part on which no FYA is claimed can be added to the relevant pool in the **same** chargeable period; only the unrelieved balance of the expenditure put into the FYA claim waits until the following or a later period.

5. Writing-down allowances (WDAs) — the fallback.
Where expenditure is not relieved in full by the AIA or a first-year allowance, the unrelieved amount falls into the relevant **pool** and is written down at a percentage each year, on a reducing-balance basis. This is where **most** cars end up — the exception being a qualifying new zero-emission car, which gets the 100% first-year allowance instead. It is not, however, simply "where spending above the £1 million AIA limit ends up": a company that exceeds the AIA on new main-rate plant can still claim 100% full expensing (which has no cap), and special-rate or other qualifying expenditure may attract the 50% or 40% first-year allowances. The pool is the fallback for what none of those reliefs has covered. The rates are:

Pool	Rate	What goes here
Main pool	**14%** (reduced from 18% on 1 April 2026)	Cars with CO2 of 50g/km or less; general plant not fully relieved
Special rate pool	6%	Cars with CO2 over 50g/km; integral features (heating, wiring, air conditioning); long-life assets

The main pool rate falling from 18% to 14% is the change that most affects this module. It makes relief on anything left in the main pool slower, which makes claiming the AIA or full expensing up front — where you can — more valuable than it used to be.

D.3 Why cars are different, and why it matters so much

Cars are excluded from the AIA, from full expensing, from the 50% first-year allowance and from the 40% first-year allowance. A car — unless it is a *new*, *zero-emission* car — can only be relieved through the writing-down allowance pools, slowly.

This single exclusion is the reason the choice of vehicle is one of the largest tax decisions an owner-managed company makes, and it is why Section E is as long as it is. Here is the shape of it:

Vehicle	Capital allowances treatment
New, fully electric car (0 g/km)	**100% first-year allowance** — full relief in year one (extended to 31 March 2027)
Used electric car, or car 1–50 g/km	Main pool, **14%** a year, reducing balance
Car over 50 g/km (most petrol/diesel)	Special rate pool, **6%** a year, reducing balance
Van (not a car)	Qualifies for **AIA** — 100% in the year, like other plant

Read that table twice. A qualifying new zero-emission car gets 100% relief in year one. An otherwise comparable petrol car **over 50 g/km** goes into the 6% special-rate pool — meaning after the first year the company has had relief on just 6% of the cost, and it takes well over a decade to relieve most of it. A qualifying van is not a car for this purpose and can normally be covered by the AIA, subject to the ordinary AIA conditions and limit. The tax system therefore gives markedly faster capital relief to qualifying zero-emission cars and vans than to higher-emission cars.

D.4 The pool mechanism, worked

To see how slow the pool route is, take a petrol car costing £20,000 with CO2 emissions **over 50 g/km**, which goes into the special rate pool at 6%.

Year	Pool brought forward	WDA at 6%	Pool carried forward
1	£20,000	£1,200	£18,800
2	£18,800	£1,128	£17,672
3	£17,672	£1,060	£16,612
4	£16,612	£997	£15,615
5	£15,615	£937	£14,678

After five years the company has had relief on £5,322 of the £20,000 — about a quarter. The rest is still sitting in the pool, being written down at an ever-smaller amount each year. Compare a £20,000 new electric car: **£20,000 of relief in year one.** That is the difference the vehicle choice makes, and it is entirely a function of which allowance the car qualifies for.

D.5 Balancing charges: relief can be clawed back

One feature of the system catches people out on disposal, and the mechanics differ depending on which allowance was claimed — a distinction worth getting right, because the two are often wrongly treated as the same.

Where the annual investment allowance was claimed, disposal follows the **normal pool rules**. The asset's **disposal value** is deducted from the relevant pool — usually the net sale proceeds for an arm's-length sale, but the capital-allowance rules can substitute another value and normally cap disposal value by reference to qualifying expenditure. If the pool still has a balance, the disposal value simply reduces it and no immediate charge arises; a **balancing charge** — an addition to taxable profit — arises where the disposal values exceed the available pool balance. For a company with other assets in the pool, an AIA-relieved asset sold on does not necessarily produce an immediate stand-alone charge.

Where full expensing was claimed, the rule is stricter. Full expensing carries its own **immediate balancing charge** on disposal. If full expensing was claimed on the **full cost** of the asset, the balancing charge is the whole disposal value. If it was claimed on only part of the expenditure, only the statutory **relevant proportion** of the disposal value gives rise to the immediate balancing charge; the remaining disposal value is deducted from the main pool in the normal way. In simple terms, the special charge follows the proportion of the asset expenditure that received full expensing.

Where the 50% first-year allowance was claimed, a similar relevant-proportion rule applies. If the 50% allowance was claimed on the **full cost** of the asset, **50%** of the disposal value gives rise to an **immediate balancing charge** and the other 50% is deducted from the special rate pool in the normal way. If the allowance was claimed on only part of the expenditure, the immediate balancing charge is correspondingly smaller under the statutory **relevant proportion** calculation, and the balance of the disposal value goes through the special rate pool.

Where the 40% first-year allowance was claimed, there is no special immediate balancing charge of that kind. Disposal follows the **normal pool rules**: the disposal value is deducted from the main pool, and a balancing charge arises only if it exceeds the pool balance. This is the same as the AIA position above.

The practical upshot is the same in direction — up-front relief can be partly reversed if the asset is later sold for a meaningful sum, so it is in part a timing benefit — but these routes differ, and full expensing is the most immediate clawback. Where an asset is scrapped for nothing, no clawback arises on any of them. For substantial equipment that is later sold, the difference matters, and it is one more reason the AIA is often the simpler choice for an owner-managed company.

D.6 Timing around the year end

AIA and first-year allowances are claimed by reference to the chargeable period in which the qualifying capital expenditure is treated as **incurred**, so the timing around the accounting year end can decide which period gets the relief.

Brackford's year ends on 31 March. Assume a server is delivered on 30 March 2027 under ordinary payment terms and the obligation to pay becomes unconditional on delivery: the expenditure falls in the year to 31 March 2027. If the same delivery occurs on 2 April 2027, it falls in the following accounting period.

The technical trigger is the date on which the **obligation to pay becomes unconditional**. For ordinary goods with no special payment agreement, that is commonly the delivery date; a contract can produce a different result, so the order date or invoice date is not by itself decisive. There is also a special rule where payment is not **required** until **more than four months** after the obligation becomes unconditional: the affected expenditure is then treated as incurred when payment is required. If only part of the price is due more than four months later, the expenditure can be split between the relevant dates. For ordinary equipment bought on normal commercial terms this often makes no practical difference, but it matters for year-end purchases, staged payments and unusually long credit terms.

That timing can matter, but it is not free money. **Bringing forward a purchase only makes sense if the business needs the asset and the commercial timing works.** Buying equipment solely to obtain a deduction spends real cash to save only a fraction of that cash in tax. Even where the purchase was going to be made anyway, accelerating it generally brings the tax relief forward rather than creating extra relief, so the cash-flow benefit should be weighed against paying for the asset earlier and any financing cost.

There is a subtlety worth noting for a period spanning 1 April 2026: where writing-down allowances are being claimed on a pool, and the accounting period straddles the date the main pool rate fell from 18% to 14%, a **hybrid rate** applies for that period, blended by the number of days each side. For Brackford, whose year runs 1 April to 31 March, this does not arise — the year to 31 March 2027 is entirely after the change. A company with, say, a 31 December year end would use a blended rate for the period spanning the change.

D.7 Brackford: the year's capital allowances

Sam bought two laptops and a server for £6,400, all new.

Qualifying expenditure	£6,400
Allowance claimed	Annual investment allowance, 100%

Qualifying expenditure	£6,400
Deduction in the year to 31 March 2027	£6,400
Balance carried forward	Nil

The whole £6,400 is relieved this year. There is no need to reach for full expensing — the AIA covers it, and covers second-hand as well as new, so it is the natural first choice. The car is dealt with in Section E, where the choice of vehicle changes the answer dramatically.

Watch point: the AIA covers new and second-hand qualifying plant alike and gives 100% relief where it is available and claimed. On Brackford's facts the £6,400 of ordinary IT equipment is fully covered by the AIA, so the reduced 14% main-pool rate does not come into play for that expenditure.

E. Vehicles and mileage

E.1 The two fundamentally different routes

There are two ways for Sam to be covered for business motoring, and they are structurally different — not two versions of one thing, but two separate systems with different tax consequences on both sides.

Route one — a company car. The company provides the car — by buying it or by leasing it — and pays its running costs. Either way Sam, having a company car available for private use, is taxed on a **benefit in kind**, and the company pays Class 1A National Insurance on that benefit. But the company's own relief for the **cost of the car** depends on whether it buys or leases, and the two are quite different:

- **If the company buys the car**, it gets **capital allowances** on the cost — for a car, at the rates in Section D (100% first-year for a qualifying new zero-emission car; 14% main-pool writing-down allowance for a used electric car or another car at 50 g/km or below; 6% special-rate writing-down allowance for a car over 50 g/km).
- **If the company leases the car** under an ordinary lease, it does not get capital allowances; instead it deducts the **lease rentals** as a running cost. (Certain arrangements — a long funding lease, or hire purchase — are treated differently, with the user getting capital allowances as if it owned the car; those are beyond this module.) For most business car hires lasting **more than 45 consecutive days**, where the car has CO2 emissions **over 50 g/km**, only **85%** of the rental is deductible — a flat 15% disallowance. For a leased car at 50 g/km or below, including an electric car, that emissions-based restriction does not apply and the rental is not reduced by 15%.

So the emissions distinction runs through the ordinary leasing route as well: a qualifying electric car is not subject to the emissions-based 15% lease-rental disallowance, while for a car over 50 g/km the restriction normally disallows 15% of the relevant rental deduction. Other running costs — insurance, servicing and repairs — are normally deductible as employment/business costs, subject to the ordinary rules.

Route two — a private car with mileage claimed. Sam owns the car personally and pays for it personally. When Sam drives on business, the company reimburses at the **approved mileage rate**. There is no benefit in kind, no capital allowance, no Class 1A — just a tax-free mileage payment for business journeys.

Which is better depends on several things — the list price, the business and private mileage, the director's marginal rate, the company's corporation tax position, and how long the car will be held. **Whether the car is electric is one of the largest factors in many comparisons**, because it affects both the benefit percentage and, for a purchased qualifying new zero-emission car, the timing of capital allowances. It is an important thread through this section, but it is not by itself decisive.

E.2 The company car benefit charge

Where the company provides a car available for Sam's private use, the taxable benefit is:

taxable car value × the appropriate percentage

For the simple examples in this module, the taxable car value is treated as the car's list price. Strictly, the statutory calculation starts with the car's list (or, where relevant, notional) price, adds qualifying accessories, deducts qualifying employee capital contributions, and can then be adjusted for matters such as periods when the car is unavailable, sharing and qualifying payments by the employee for private use. A used car is therefore **not** valued simply at its second-hand purchase price. The appropriate percentage is then determined mainly by CO2 emissions. And this is where the electric-versus-petrol gulf opens up:

Car	Appropriate percentage 2026/27
Fully electric (0 g/km)	**4%**
Plug-in hybrid, 1–50 g/km	**4% / 7% / 10% / 14% / 16%**, by electric-only range (longest range 4%, shortest 16%)
Petrol, 51–54 g/km	17% (then 18/19/20/21% at 55–59, 60–64, 65–69, 70–79 g/km)
Petrol, mid-range emissions	25–31%
High emissions (155 g/km and above)	37% (the cap)

Diesel cars not meeting the RDE2 standard add a 4% supplement, capped at 37%. A plug-in hybrid emitting 1–50 g/km sits in a band set by how far it can travel on electric power alone: a long electric range (130 miles or more) is taxed at 4%, the same as a pure electric car, while a short electric range is taxed at 16%. Depending on electric range, a plug-in hybrid can therefore sit well below a conventional petrol car, though usually above a pure electric one — and note that from 2028/29 the electric range stops mattering and every 1–50 g/km car moves to a single, much higher band, which matters for any car kept several years.

There is also a **temporary easement** worth knowing about, because a stricter emissions test (Euro 6e-bis) has been pushing many plug-in hybrids' official CO2 figures up, which would otherwise raise their benefit charge. For a qualifying plug-in hybrid — broadly, one first registered on or after 1 January 2025 and before 6 April 2028, tested under the newer standard, with a quoted figure of 51 g/km or more and an electric range of at least a mile — the CO2 figure is **deemed to be 1 g/km** for the company car benefit, so the percentage is set by electric range as if the car were in the 1–50 g/km band. Two points matter for this module. First, the easement applies to 5 April 2028. If an eligible plug-in hybrid has been **made available to the employee** by that date, transitional protection can continue for that arrangement until the **earlier** of a variation or renewal of the arrangement and 5 April 2031 — it is not enough that the car was merely registered in time; it must actually be in use in the arrangement by 5 April 2028. Second, and this is the trap, it applies **only to employment benefits** — the company car benefit, optional remuneration arrangements and the fuel benefit. It does **not** change the CO2 figure used for capital allowances, corporation tax, the lease rental restriction, VED or VAT. So the same car can be treated as 1 g/km for Sam's benefit in kind and as its real, higher figure for the company's capital allowances. The two sides of the analysis use different numbers.

Work an example on each. Take a £40,000 list price and assume there are no additional taxable accessories, no employee capital contribution, no period of unavailability and no payment by Sam for private use, so the taxable car value used in the example is £40,000. For the employee-tax illustration only, assume Sam's marginal income-tax rate on the benefit is **40%**; an individual's actual rate depends on their own tax position and can differ under the Scottish income-tax rates.

Electric car, £40,000 list price:

Benefit: £40,000 × 4%	£1,600
Sam's income tax at 40%	£640
Company's Class 1A at 15%	£240

Petrol car, £40,000 list price, 30% band:

Benefit: £40,000 × 30%	£12,000
Sam's income tax at 40%	£4,800
Company's Class 1A at 15%	£1,800

Same car price. The petrol driver and the petrol driver's company together pay **£6,600 a year** in tax and National Insurance on the benefit; the electric equivalent, **£880**. That gap, £5,720 every year the car is held, is before we even reach capital allowances.

E.3 Capital allowances, stacked on top

Now add the capital allowances position from Section D, because it compounds the same direction.

Electric car: new and zero-emission, so a **100% first-year allowance** — the company deducts the whole £40,000 in year one.

Petrol car: over 50 g/km, so the **special rate pool at 6%** — the company deducts £2,400 in year one, and the rest over more than a decade.

So in this example the electric car wins twice: a benefit charge of about **13%** of the petrol car's, and full capital relief up front instead of a slow 6% drip. This is not an accident of this example; it is the deliberate design of the system in 2026/27. **For an owner-managed company that genuinely needs a car and is choosing what to buy, a new electric company car is one of the few remaining genuinely tax-efficient benefits in kind** — though the final answer still depends on the list price, the mileage and the holding period, which is why the comparison should be run on the actual figures.

E.4 The fuel benefit trap on a petrol company car

There is a separate charge that catches petrol and diesel company cars, and it is one of the most expensive mistakes in this area: if the company **also pays for private fuel** in a company car, a **car fuel benefit** arises, on top of the car benefit itself.

The fuel benefit is calculated by taking a fixed multiplier — **£29,200 for 2026/27** — and applying the **same CO2 percentage** used for the car benefit. So for a petrol car in the 30% band:

Fuel benefit: £29,200 × 30%	£8,760
Sam's income tax at 40%	£3,504
Company's Class 1A at 15%	£1,314

For a full year in which the car and private fuel remain available, that gives a **£8,760 cash equivalent** even if the actual private fuel supplied costs far less: the charge is based on the statutory multiplier, not on the litres bought or their actual cost. Statutory reductions can apply in particular circumstances — for example where the car is unavailable for part of the year, where free fuel is finally withdrawn and not reinstated, or under the shared-car rules — so the annual figure is not literally immutable. But simply using little private fuel does not reduce it. The trap is therefore that a modest private-fuel perk can produce a disproportionately large taxable benefit.

For Brackford's full-year illustration, the practical way to eliminate the fuel benefit is for Sam to **make good** — reimburse the company for — the **whole** cost of the private fuel, no later than **6 July following the end of the tax year**. A partial reimbursement of the private-fuel cost does **not** give a proportional reduction in the fuel benefit. In practice, the cleaner course is usually for the company never to pay for private fuel in the first place, or for Sam to repay all private fuel within the statutory deadline.

E.5 Charging and electric running costs

A few points specific to electric company cars, because they change the running-cost picture:

- **Workplace charging** provided by the employer is exempt — no benefit in kind.
- **Electricity for a company car** is not treated as "fuel" for the fuel benefit charge, so the fuel-benefit trap in E.4 does not arise for an electric car.
- Where Sam is reimbursed for business mileage in a **company** electric car, the **advisory electric rate** gives a convenient benchmark: from **1 June 2026**, 7p per mile for home charging and 15p per mile for public charging. These rates are reviewed periodically by HMRC rather than fixed for the whole tax year — check the rate in force before using it. It is an advisory benchmark, **not an absolute ceiling**: where the evidenced cost per mile is higher, a higher rate may be reimbursed.
- There is a broader and very useful rule for a **company** electric car. Where Sam pays to charge it — at home or at a public charger — and the company **reimburses the actual electricity cost**, that reimbursement does **not** create a separate benefit charge, even where the charging covers private as well as business mileage, provided the reimbursement relates **solely** to the company car (HMRC accepts this under the section 239 exemption). The practical catch is evidence: the company must be able to show the reimbursed electricity was used for the car and not the household — which is why a charger with its own usage record is worth having. This is the "deduction and benefit are two questions" theme again: the employee-side exemption does not depend on treating electricity as car fuel. The advisory-rate method and reimbursement of actual electricity cost are alternative ways of dealing with the same cost; the same charging cost should not be reimbursed twice.

E.6 The private car and the mileage route

Now the other route. Sam owns the car; the company pays for business journeys at the approved mileage rate.

This is where the biggest single figure change in the module lives. The approved mileage rate rose on 6 April 2026, for the first time since 2011:

	2026/27
Cars and vans, first 10,000 business miles	**55p per mile** (up from 45p)
Cars and vans, above 10,000 miles	25p per mile (unchanged)
Motorcycles	24p per mile
Bicycles	20p per mile
Passenger (per fellow employee carried)	5p per mile

Almost every template, spreadsheet and rule of thumb still says 45p. It is 55p for 2026/27.

For **income tax**, the approved mileage amount is 55p for each of the first 10,000 business miles in the tax year and 25p a mile after that. A payment within that income-tax approved amount can be made without an income-tax charge, and there is no company-car benefit, capital allowance for Sam or Class 1A charge. The AMAP is intended to cover the vehicle's running and ownership costs — fuel, insurance, servicing and depreciation — so those vehicle costs are not claimed on top of the mileage amount.

If the company pays **less** than the income-tax approved amount, Sam can claim income-tax relief personally on the shortfall (Mileage Allowance Relief). If it pays **more**, the excess over the income-tax approved amount is taxable. **National Insurance uses a separate mileage figure:** for cars and vans in 2026/27 the NIC rate is **55p for all business miles**, so after 10,000 miles a payment can be above the 25p income-tax AMAP rate yet still remain within the separate 55p NIC mileage amount. The payroll treatment therefore needs the two tests to be kept distinct.

Worked example. Sam drives 4,000 business miles in the year in a privately owned car:

4,000 miles × 55p	£2,200
Taxable on Sam	Nil
Deductible for the company	£2,200
Capital allowance, Class 1A, benefit in kind	None

Clean, simple, and for modest business mileage often the most sensible answer — particularly if Sam's car is an ordinary petrol car that would attract a punishing benefit charge and slow capital allowances as a company car.

E.7 So which route?

The decision reduces to a small number of cases:

- **A new zero-emission car bought by the company** → the case for a **company car** can be strong: low benefit charge and a 100% first-year allowance. If the company leases rather than buys the car, the capital-allowance point is replaced by the lease-rental rules in E.1. On most sets of figures the company-car route is worth modelling, though the taxable car value, mileage and holding period should still be checked.
- **A typical petrol or diesel car over 50 g/km with modest business mileage** → strong case for **private ownership with mileage claims**: avoids the large benefit charge and the 6% special-rate capital-allowance drip.

- **High business mileage in any car** → the mileage route can become less attractive above 10,000 miles, where the rate drops to 25p, and the arithmetic needs doing on the actual numbers.
- **A van rather than a car** → different again, and more favourable than it first looks. A qualifying van normally falls within the AIA, so 100% relief can be available in the year where the AIA is available and claimed (unlike a car, which is excluded from the AIA). And the van benefit charge is **not automatic**: if the van is available mainly because it is needed for business travel, the **terms on which it is provided prohibit private use other than ordinary commuting** (or substantially similar commuting), and in practice any breach/other private use is no more than insignificant, the restricted-private-use condition can be met and the van benefit charge is **nil**. The flat £4,170 charge only arises where that restricted-private-use condition is **not** met — where there is real private use beyond commuting. A zero-emission van has a nil van benefit charge regardless. The **van fuel benefit** is also nil where the restricted-private-use condition is met, and no van fuel charge arises for a zero-emission van. Where the condition is not met and private fuel is provided for an emitting van, the headline van fuel benefit is **£798** for 2026/27; it can be reduced to nil if the employee makes good the whole cost of private fuel by the statutory deadline. So for a director who uses a van genuinely for the business and only commutes in it privately, the outcome can be no benefit charge at all — neither the £4,170 nor the £798 — a materially better position than a privately available car.

Watch point: do not assume a vehicle marketed as a pick-up is a “van” for tax. From **6 April 2025 for benefits in kind**, and **1 April 2025 for Corporation Tax capital allowances**, most double-cab pick-ups have to be classified under the ordinary car/van tests rather than the old one-tonne-payload approach; many will therefore be treated as **cars**, with the car benefit and car capital-allowance rules that go with that classification. The transitional rules differ by tax. For benefits in kind, where an employer purchased, leased or ordered a qualifying double-cab pick-up before 6 April 2025, the previous treatment can continue until the earliest of disposal, lease expiry and **5 April 2029**. For Corporation Tax capital allowances, separate protection can apply to expenditure incurred **on or after 1 April 2025 but before 1 October 2025** where it arises under a contract entered into before **1 April 2025**. A vehicle has to meet the relevant tax definition: the marketing label is not the test.

E.8 Brackford: Sam’s car

Sam visits client sites but does not drive huge distances — perhaps 4,000 business miles a year. Sam already owns an ordinary petrol car personally.

Assume Sam’s existing petrol car emits more than 50 g/km. Given that car and Sam’s modest business mileage, making it a company car would be unattractive in this example: a large benefit charge and 6% special-rate capital allowances. Instead, Sam keeps the car in personal ownership and the company reimburses business mileage:

Business mileage	4,000 miles
Rate	55p per mile
Company deduction	£2,200
Taxable on Sam	Nil

That is the figure carried into the accounts. The course text notes, but does not decide for Sam, that **if and when the car is replaced, a new zero-emission car bought by the company would materially change the analysis** — at which point the company-car route combines a low 4% benefit rate with the potential 100% first-year allowance. If the replacement is leased instead, the lease-rental rules apply instead of capital allowances. That is a decision for the point of replacement, and one to take advice on then.

Watch point: the approved mileage rate is 55p for the first 10,000 miles in 2026/27, not 45p — it changed in April 2026 after fifteen years, and most sources have not caught up.

F. Mobile phone and broadband

F.1 Why the name on the contract matters so much

This is a small area with a rule so sharp it is worth a section of its own: for the one-mobile-phone exemption, **who contracts with the supplier is decisive**, and the difference can be large relative to the sums involved.

Contract in the company's name. Where the company takes out the mobile phone contract, in the company's name, and provides the phone to Sam, there is a specific exemption: an employer may provide **one mobile phone** per employee with no taxable benefit, **even where there is private use**. The genuine employment cost is normally deductible for the company — including line rental and calls — and Sam has no benefit in kind under the exemption, regardless of how much of the use is personal.

This is unusually generous. Private use does not need to be apportioned out for the employee-side exemption. One company-contracted phone or SIM per employee can be provided without a benefit charge, and the company will normally deduct the genuine employment cost. For an owner-managed company the practical distinction is simple: the employer must be the party contracting with the supplier for the section 319 exemption to apply. This is the ordinary-provision case; mobile-phone costs provided through a **salary-sacrifice** arrangement are subject to separate optional-remuneration rules and are not covered by this simple treatment.

Contract in Sam's name. Where the phone contract is in Sam's personal name, the one-phone exemption does **not** apply. The precise reporting mechanics then depend on how the company pays. If Brackford **reimburses Sam** for the monthly tariff or for private calls, the reimbursement is treated as earnings and goes through payroll for PAYE and Class 1 National Insurance. If Brackford instead **pays the supplier directly** under Sam's personal contract, the cost is reportable as a benefit/pecuniary-liability payment and Class 1 National Insurance is due through payroll. Identifiable **business calls that are charged on top of the monthly tariff** can be reimbursed without tax or National Insurance; but where the tariff includes the calls at no extra cost, there is no separate business-call cost to reimburse tax-free.

The same phone and the same usage can therefore produce a very different tax result depending on who contracts with the supplier and how the company settles the cost.

Watch point: if the company is to provide the exempt mobile phone, put the contract between the **company and the supplier**. One employer-provided phone or SIM per employee can be exempt even with private use. Funding a personal contract is outside that exemption, and the reporting treatment differs depending on whether the company reimburses the employee or pays the supplier directly.

F.2 Broadband

Broadband is treated differently from the mobile phone, and less favourably, because the household usually has broadband anyway.

Where the broadband subscription already exists for the household, the company cannot simply reimburse the existing tariff tax-free as a homeworking cost under section 316A: Sam was already paying it, so it is not an **additional** household expense. A business-use percentage of an existing flat-rate family package does not turn part of that tariff into an additional cost. If a genuinely separate or additional service is required for work, its treatment depends on the facts and on which exemption applies.

Where the company itself provides internet access at Sam's home, the section 316 exemption can apply if Brackford's **sole purpose** in providing it is to enable Sam to perform the employment duties and any private use is not significant. A genuinely work-only connection can therefore be provided without a benefit charge. This is a stricter test than simply putting the bill in the company's name, and it is why a shared family connection with significant private use does not automatically qualify.

A new reimbursement exemption from 6 April 2026. For completeness, a new provision — section 316ZA — took effect on 6 April 2026. It extends the existing exemption for employer-provided supplies and services to cases where the **employee pays the cost on the employer's behalf and the employer reimburses it**. Before this, several of these exemptions only worked where the employer contracted directly; now a reimbursement can qualify too. But the new exemption comes with the **same condition** as the old one: where the item is provided away from the employer's premises, its **sole purpose** must be to enable the employee to do the job, and any private use must be **not significant**. A household broadband line that the family also uses fails that sole-purpose test — the private use is significant — so section 316ZA does **not** rescue a claim for Sam's existing home broadband. It matters where an employer reimburses a genuinely business-only service; it does not turn a shared family broadband bill into a tax-free reimbursement.

For Sam, then, the existing household broadband charge is **not separately reimbursed or claimed**. Brackford instead pays the £6 homeworking allowance in Section B.2 towards additional household costs generally; that flat payment does not require Sam to identify a separate deductible slice of the existing broadband tariff.

F.3 Brackford: phone and broadband

Item	Amount	Treatment
Mobile phone — contract in the company's name	part of £1,320	Normally deductible as an employment cost; no benefit in kind under the one-phone exemption
Home broadband — line already existed	part of £1,320	Not separately reimbursed; £6 homeworking allowance used for additional household costs generally

Sam moved the mobile contract into the company's name. The one-phone exemption removes the employment-income charge, and the genuine employment cost is normally deductible for the company. The broadband line already served the household, so its existing tariff is not separately reimbursed. The deductible figure carried into the example is the company-contracted phone cost; the separate £6 homeworking allowance is dealt with in Section B.

G. Travel and subsistence

G.1 The rule that surprises people: ordinary commuting is not qualifying business travel

The starting point is one that catches every new business owner: travel from home to a **permanent workplace** is "ordinary commuting" and is treated as a private journey for the employee travel-expense rules. Sam cannot claim it as a deductible employment travel expense, and Brackford cannot reimburse Sam's personal commuting cost tax-free as if it were business travel. A **company car** is different mechanically: the company's ownership or lease costs and running costs are dealt with under Section E, while private availability and use are dealt with through the company-car benefit rules. Using a company car for the journey does not turn commuting into qualifying business travel.

What can qualify under the employee travel rules is travel to a **temporary workplace**, and travel in the actual performance of the duties. Where Brackford pays or reimburses qualifying travel and subsistence, the company normally deducts the staff cost and Sam can receive it without a travel benefit charge, subject to the detailed rules below.

For a home-based IT company this analysis is often favourable, but it has to be built up in the right order, because the intuitive short cut is wrong. The tempting short cut is: “my home is my base, so every journey from home is a business journey.” That is not how the test works. HMRC’s position is explicit that a workplace being someone’s home does **not**, by itself, turn travel from home to another workplace into deductible travel.

The correct order is to look at the **destination** first. Travel from home can qualify where the place travelled to is a **temporary workplace** — somewhere Sam attends to do a task of limited duration or for a temporary purpose — rather than a permanent workplace. There is also a common-sense safeguard: a journey to a temporary workplace can still be treated as ordinary commuting if, in practical terms, it is **substantially the same** as the employee’s normal commute to a permanent workplace. For a genuine managed-service company like Brackford, a client’s premises visited for a self-contained project or other genuinely temporary purpose will often be a temporary workplace. The conclusion follows from the facts of the client visit, not merely from Sam working at home.

That distinction sounds academic until the next section, where a single long engagement turns a “temporary” site into a permanent one and the deduction disappears. And there is a prior boundary, specific to the way many IT businesses are structured, that has to be dealt with first.

G.1a The personal service company boundary

There is a specific rule — section 339A of the Income Tax (Earnings and Pensions) Act 2003 — that can switch off the temporary-workplace treatment for a worker who provides services through an intermediary. Where it applies, each engagement is treated as a separate employment, the client’s site becomes a permanent workplace for that engagement, and home-to-site travel becomes non-deductible commuting, subsistence with it. Because a one-person company can be an employment intermediary, every owner-managed IT company should understand where the line falls — and it is easy to state the line wrongly.

The line is not simply “one client bad, many clients good”. That is the intuitive version, and it is unsafe. HMRC’s own guidance is clear that a person who works continuously through their own company, taking contracts for **different clients in different places**, has commonly been able to deduct travel to those client sites, and that **the intermediaries legislation does not disturb that**. A worker with several rotating client sites, each a temporary workplace, is in a good position — but a worker’s travel is not made deductible merely by counting clients, and a business is not taken outside the rule merely by calling itself a managed service.

What section 339A turns on depends on **what kind of intermediary** the company is, and HMRC applies two different tests:

- **For a worker’s own personal service company that is not a managed service company** — the ordinary one-person contractor company — the test is the **intermediaries (IR35) test**: would this engagement require the IR35 rules to be operated, because the worker would be an employee or office-holder of the client if engaged directly? If yes, each such engagement is treated as a separate employment and travel to that client site is not deductible. For this kind of company HMRC does **not** separately apply a supervision, direction or control test; the IR35 question is the test.

- **For a managed service company** (broadly, one run through a scheme provider) the test is different — there the **supervision, direction or control (SDC)** test applies instead. That is a separate branch, and it is not the one an ordinary owner-managed IT company is usually in.

The practical point for an owner-manager is to take the first bullet: the question for a normal one-person company is the **IR35 status of the engagement**, not a free-standing "am I controlled" test. A single engagement that is inside IR35 loses the travel deduction; genuinely independent engagements for the company's own clients do not.

Client count and the "managed service" label are therefore **warning indicators, not the legal test**. Many rotating clients each on the company's own account is a helpful sign; a single client for a long, IR35-caught engagement is a warning sign. But the test itself is the IR35 status of the engagement, not how many logos are on the invoices.

For **Brackford**, the relevant facts are that it runs a genuine managed-service business — supplying support, projects and hardware to a book of clients, on its own account, not as a disguised employment of Sam by any one of them. Those facts are why the worked examples in this section hold. But the course text puts it as a fact about Brackford, not as a rule the reader can apply by counting their own clients: **a multi-client, own-account managed-service model is an important fact pointing away from a personal-service arrangement, but the number of clients or the business label is not itself the statutory test.** An owner-manager whose work in substance looks like personal-service contracting to a single client — however the company is described — should take advice on section 339A and IR35 specifically.

G.2 The temporary workplace rule and the 24-month limit

A workplace is **temporary** if Sam goes there to perform a task of limited duration or for a temporary purpose. A client site visited for a three-day project is plainly temporary.

The limit on this is the **24-month rule**, and its wording matters. A workplace is prevented from being temporary under this rule where Sam attends it, or expects to attend it, in the course of a period lasting **more than 24 months** and performs duties there to a significant extent — for this purpose, **40% or more** of working time. Two points are easy to get wrong. First, it is *more than* 24 months, not 24 months exactly. Second, it is judged on **expectation** as the facts develop. If, from the outset, Sam expects both to attend the site for more than 24 months **and** to spend 40% or more of working time there, the 24-month rule makes it a permanent workplace from **day one**. Conversely, where those conditions are not initially expected, relief is not retrospectively lost merely because the engagement later runs on; the treatment changes when the expectation changes so that the conditions are met.

For an IT support company with many short client engagements this often will not bite. The classic case is a long engagement under which the worker spends **40% or more** of working time at one client's premises for a period that lasts, or is expected to last, **more than 24 months**. It is worth recognising the rule when a long engagement is taken on, and revisiting it if the expected duration or attendance pattern changes.

G.3 Subsistence and overnight costs

Where Sam is on a genuine business journey to a temporary workplace, the associated **subsistence** — reasonable meals — and, for an overnight trip, the **hotel**, are deductible and not a taxable benefit.

Personal **incidental overnight expenses** — the small private costs of staying away, such as a newspaper, a phone call home or laundry — have their own specific limit: the employer can cover them tax-free up to **£5 a night** for stays in the UK, or **£10 a night** overseas. The limit is tested across the whole continuous trip, not night by night, and it is a genuine cliff edge: if the payment exceeds the permitted amount, the **whole** payment becomes taxable, not just the excess. Ordinary business costs — the hotel room itself, and subsistence on the journey — are separate from this and are not restricted by the £5/£10 figure.

The conditions are that the travel itself qualifies (a temporary workplace, not commuting) and that the costs are reasonable. A sandwich on the way to a client site, a hotel for a multi-day project away from home: deductible. An elaborate meal that is really entertainment, or subsistence on a journey that is actually commuting, is not.

G.4 Brackford: the three-day client project

Sam spent £680 on train fares and a hotel for a three-day project at a client's premises in another city.

Nature of the journey	Home base to a temporary workplace
Train fares and hotel	£680
Deductible for the company	£680
Benefit in kind on Sam	None

The client site is a temporary workplace, the trip is genuine business travel, and the whole £680 is deductible with no benefit in kind.

H. Entertaining and staff costs

H.1 Client entertaining: normally disallowed

For an IT services company, ordinary hospitality provided free or subsidised to clients, prospects or suppliers is **not deductible** for corporation tax. Taking a client, a prospect or a supplier for a meal or to an event — the cost is disallowed and added back.

This surprises people because client entertaining is plainly a business cost, incurred to win or keep business. It does not matter: the legislation specifically blocks a deduction for business entertaining and hospitality, regardless of how commercial the motive. (There are narrow statutory exceptions — for example where hospitality is provided in the ordinary course of a business that exists to provide it, or genuine staff entertaining, dealt with below — but none of them turns ordinary client hospitality by an IT company into a deductible cost.) The company can pay for it out of company money, but it gets no tax relief for it, and the amount is added back in the corporation tax computation.

There is a further sting where the company is VAT-registered (Module RT-103): the VAT on client entertaining is generally not recoverable either.

H.2 Staff entertaining: the annual event exemption

Entertaining **staff** is treated more kindly, but there are two separate questions. On the **company** side, genuine staff entertaining is generally an allowable employment cost where it is wholly and exclusively for the trade and is not merely incidental to entertaining clients or other non-employees. On the **employee** side, there is a separate exemption for an **annual staff function** — the traditional example is a Christmas party — of up to **£150 per head**. The £150 figure is therefore **not a corporation-tax deduction limit**; it determines whether the employee-side annual-function exemption applies.

The £150 is not a blanket allowance; it comes with strict conditions:

- it must be an **annual** event (or events), open to staff generally;
- the £150 is the **total** per head across all such events in the year, inclusive of VAT and of any costs like transport or accommodation;
- it is **all or nothing for a given event**. If a single event costs £151 per head, the whole £151 is a taxable benefit — not just the £1 over. The exemption is a cliff edge, not an allowance with a taxable excess.

Where there is **more than one** annual event in the year, the £150 is a total across them, but the rule is applied sensibly: the company may **choose which qualifying events to bring within the £150**, and only the events left outside are taxable. It is not the case that going over £150 in total makes *every* event taxable — you fit as many events as will fit under £150 and the exemption covers those; the rest fall out. For a one-person company this is of limited use — an "annual staff event" for a sole director is a modest affair — but where a company has genuine staff it is worth using precisely.

H.3 Trivial benefits

A more useful exemption for a small company is the **trivial benefits** exemption. On the **employee** side, a benefit is tax-free and does not need to be reported if **all** of these hold:

- it costs **£50 or less** (per benefit), measured using the employer's VAT-inclusive cost;
- it is not cash or a cash voucher;
- it is not a reward for work or performance;
- it is not in the terms of the employment contract.

A modest gift — flowers, a bottle of something, a store gift card under £50 not tied to performance — is exempt on each occasion. One practical caution: where the **same** gift card is repeatedly topped up, HMRC may treat the top-ups as a single continuing benefit and aggregate them, rather than as a fresh £50 benefit each time. Separate, genuinely distinct gifts are the safer way to stay within the exemption.

The company's corporation-tax deduction is a **separate** question. A genuine staff or remuneration cost will normally be deductible, but the trivial-benefit exemption itself does not create that deduction; the purpose of the company's expenditure still matters, particularly in a close company.

For a **director of a close company** there is an annual cap: the total of trivial benefits in a year cannot exceed **£300**. Within that, several £50 benefits across the year are each exempt. There is a point owner-managers miss: trivial benefits given to a director's **family or household members** — a spouse, a child — generally count towards the **director's** own £300 cap, unless that person is themselves an employee or office-holder of the company taxed in their own right. So a company that gives gifts to the director and to the director's family is drawing on one shared £300 limit, not several. It is small, but it is one of the few genuinely tax-free ways for a close company to give its director something, and it is worth counting correctly.

H.4 Brackford: the prospect lunch

Sam took a prospective client to lunch, £140.

Nature	Client (business) entertaining
Cost	£140
Deductible for the company	**Nil** — disallowed and added back

Nature	Client (business) entertaining
Paid from	Company funds (allowed, but no tax relief)

The £140 can be paid by the company, but it gets no deduction. In the corporation tax computation it is added back to profit. This is the correct treatment for **this ordinary prospect lunch**; none of the narrow statutory exceptions to the business-entertaining disallowance applies on these facts.

I. Training expenditure

I.1 Two rules, and both are more generous than they used to be

Training sits under two different sets of rules — one for the self-employed, one for a company training its employees. It is worth being accurate about **both**, because the older, harsher version of each is still repeated all over the internet, and getting either wrong leads a reader astray.

The self-employed rule — updated in 2024. The old position was that a sole trader could deduct training that *maintained or updated* existing skills, but that training giving a *new* skill or qualification was capital and not deductible. **That old rule no longer represents HMRC's view.** Since HMRC rewrote its guidance in early 2024, a self-employed person may deduct training that either updates existing expertise **or provides new expertise or knowledge**, provided it relates to the trade they are already carrying on — including keeping pace with technological change and changes in industry practice. HMRC's own published example is a website designer taking a course in artificial intelligence: new expertise, in an area related to the existing business, and treated as allowable. What remains **non**-deductible for the self-employed is training to start a **brand-new, unrelated** business or to move into a new trade.

The employer rule. Where a **company** pays for **work-related training** for its director or employee, the training is exempt from a benefit-in-kind charge on the employee across a wide range — including training that develops new skills. "Work-related" means related to the employee's employment, and the range covered is genuinely broad.

So the honest position is not "companies can do something the self-employed cannot". Since 2024 the two regimes have moved much closer together: both now allow training that develops new skills, as long as it relates to the existing trade or employment. The difference that remains is at the edges — the employer regime is still somewhat wider, and the "must relate to the *existing* trade" boundary bites a little harder on the self-employed — but the old, stark "new skill is capital for the self-employed" contrast is out of date and should not be relied on.

I.2 Why this matters to an IT company, and one company-specific caution

IT is a field where skills need constant renewal and where new certifications open new lines of work. The employer training rule means Brackford can fund Sam's professional development — new certifications, cloud platforms the company does not yet work with, security qualifications related to the trade — and create no benefit-in-kind charge on Sam.

There is, however, a caution that is specific to an owner-managed company and easy to miss. The benefit-in-kind exemption is one question; whether the **company** gets a corporation tax **deduction** for the cost is a separate one (this is the A.6 point again). For a company training an ordinary, unconnected employee, the deduction is straightforward. For a company training its **sole director-shareholder**, HMRC's guidance invites a further check: would the company incur this same cost to train an unconnected employee in the same role?

Where the answer is plainly yes — a certification the business genuinely needs — the deduction stands on the wholly-and-exclusively test. Where the training looks more like a personal benefit dressed up as company expenditure, the deduction can be challenged even though the benefit-in-kind exemption applies. So “work-related” secures the employee’s side; the company’s deduction still has to pass the ordinary test.

The common online advice on training is usually written for the self-employed **and** often reflects the pre-2024 rules, so an owner-manager reading it can be doubly misled. The reliable position for Brackford: genuine, trade-related professional development is deductible for the company and free of benefit in kind for Sam — but it must be genuinely for the trade, not a personal course routed through the company.

I.3 Brackford: the certification course

Sam took a cloud-certification course, £1,500.

Nature	Work-related training funded by the employer
Cost	£1,500
Deductible for the company	£1,500
Benefit in kind on Sam	None

The course is related to the company’s IT support trade, so it is work-related training: no benefit-in-kind charge on Sam, and — because it is genuinely for the trade the company carries on — deductible for the company. It develops a new skill, but that is no obstacle: neither the employer rule nor, since 2024, the self-employed rule treats a trade-related new skill as non-deductible.

Watch point: employer-funded work-related training is free of benefit in kind for the employee; the company’s deduction still has to be genuinely for the trade, which for a sole director-shareholder means training the business actually needs, not a personal course routed through the company.

J. Records and evidence

J.1 What supports a deduction

A deduction is only as good as the evidence behind it. For each of the categories in this module, the company needs to be able to show, if asked, that the expense was incurred and that it was for the trade.

In practice that means keeping:

- **the receipt or invoice** for each expense — the primary evidence that it was incurred and what for;
- **a record of business purpose** where it is not obvious — for a trip, where and why; for a meal claimed as subsistence, the business journey it related to;
- **a mileage log** for every business journey, showing the date, the route, the purpose and the distance — the approved mileage claim depends entirely on this, and it is the single record most often missing;
- **the contracts** that determine treatment — notably the mobile phone contract (whose name it is in decides the tax result, per Section F);
- **capital asset records** — what was bought, when and for how much, so that capital allowances and any later balancing charge can be computed;

- **stock records** — for a company that buys hardware to resell, the purchases, the sales, and the quantity and value of hardware still held at the year end, so that unsold stock is carried in inventory rather than written off in full as cost of sales.

J.2 Retention periods

A company must keep its records for **at least six years** from the end of the accounting period. Where a matter is under enquiry, or an asset bought this year will be sold years later (bringing a balancing charge into play), the relevant records must be kept longer — until the matter is closed or the asset finally dealt with.

J.3 The categories most likely to be questioned

Some deductions attract more scrutiny than others because they are the ones most often stretched. For an IT company the usual candidates are:

- **home office** costs above the flat rate, where the "additional cost" basis is claimed without evidence;
- **motoring**, where the split between business and private use, or the mileage log, is thin;
- **subsistence and travel**, where the line between a temporary workplace and ordinary commuting has been blurred;
- **anything with a private flavour** — a "business" trip that looks like a holiday, equipment that looks personal.

The defence against all of these is the same: contemporaneous records, kept at the time, showing the business purpose. A deduction with a clear paper trail is rarely a problem. A deduction reconstructed from memory a year later, without documents, is where enquiries find their footing.

Watch point: the mileage log is the record most often missing and the one the whole mileage claim depends on — capture date, route, purpose and distance for every business journey, at the time.

K. Putting it together

K.1 Brackford's year, assembled

Pulling the sections together, here is how Sam's spending resolves for the year to 31 March 2027.

Item	Amount	Treatment	Deductible
Home as office	£312	£6/week flat rate (B)	£312
Two laptops and a server	£6,400	AIA, 100% (D)	£6,400
Software subscriptions	£2,900	Revenue; charged in full to this year on the facts assumed (C)	£2,900
Car — business mileage	£2,200	4,000 miles at 55p (E)	£2,200
Mobile phone (company contract)	part of £1,320	Normally deductible as an employment cost; one-phone exemption removes BIK (F)	see note

Item	Amount	Treatment	Deductible
Home broadband	part of £1,320	Existing household tariff not separately reimbursed (F); £6 homeworking allowance shown above	nil separately
Train and hotel, client project	£680	Business travel (G)	£680
Prospect lunch	£140	Client entertaining (H)	**nil**
Cloud-certification course	£1,500	Work-related training (I)	£1,500

The pattern is worth reading off. **Most items in this worked example obtain tax relief**, although they do so through different routes: revenue deductions, mileage reimbursement or the AIA. Two items are useful reminders that a commercial cost is not automatically deductible in the way a reader might expect: **ordinary client entertaining is specifically disallowed**, and the **home-office deduction is usually modest** unless a formal rental arrangement is used with all its separate consequences.

K.2 The four things that stick

1. **Two questions, in order — then check the specific rule.** Capital or revenue first; then wholly-and-exclusively (or apportionable) for revenue costs. Every item starts there, but a category-specific exemption, restriction or disallowance can change the result — client entertaining is the clearest example.
2. **The deduction and the benefit are different questions.** When the company pays for something Sam uses, check both — the company's deduction *and* whether Sam has a benefit in kind. The company car is the case where the answer to the second is expensive.
3. **The contract structure and the vehicle's tax category matter as much as the amount.** A phone supplied under a qualifying company-to-supplier contract can fall within the one-mobile-phone exemption, while a personal contract paid by the company follows different reporting rules; the company's deduction remains a separate question, though genuine employment costs are normally allowable. A qualifying new zero-emission company car is taxed at 4% and can qualify for 100% first-year relief; a used electric car keeps the low 4% benefit but not the 100% car FYA (it goes in the 14% main pool); a typical petrol car above 50 g/km is taxed at up to 37%, with capital allowances at 6% a year. Small structural choices, large tax consequences.
4. **Watch which rulebook you are reading.** A sole trader's room-by-room home-cost apportionment does **not** transfer directly into a director's company. A formal rent is a different route: the company pays rent and the director separately applies the property-income rules. And much online guidance still reflects earlier positions — HMRC revised its guidance on trade-related self-employed training in 2024, the employee's own deduction for unreimbursed household costs was closed from April 2026, and the mileage and main-pool rates changed in 2026. For a director employed by their own company, use the employer/company rules and check the version in force.

And the fifth, which is the honest one and the same as in RT-101: **the figures change.** The main pool rate fell to 14% in April 2026. The mileage rate rose to 55p in April 2026. The electric car benefit rose to 4% and rises again next year. What does not change is the structure — the two questions, the two-sided analysis, the revenue/capital line. That is what this module has tried to give.

Glossary

Term	Meaning
Wholly and exclusively	The statutory test for a deductible trading expense: the whole amount, and the trade the only purpose
Duality	Where the purpose of the expenditure being tested is inseparably both trade and non-trade. The classic clothing cases concern the trader's or employee's own expense; for a company, test the company's purpose and then consider any separate employee benefit rules
Apportionment	Dividing a cost into genuinely separable trade and non-trade elements where the law permits it; in a company, private use by an employee often also requires a separate benefit-in-kind analysis
Revenue expenditure	Day-to-day running costs; generally relieved through the accounts under normal accounting treatment, subject to any tax adjustments
Capital expenditure	The cost of acquiring or improving an enduring asset; not deductible as a trading expense, and relieved, where available, under the relevant capital tax regime (usually capital allowances, sometimes the intangible fixed assets rules)
Capital allowances	Tax relief for qualifying capital expenditure on plant and machinery; for tax, accounting depreciation is normally added back and capital allowances are claimed instead
Annual investment allowance (AIA)	100% relief on qualifying plant and machinery, up to £1 million for a normal 12-month chargeable period; new and second-hand; not cars; shorter periods and certain group/related-company cases can reduce or share the maximum
Full expensing	100% first-year allowance for companies on new, unused main-rate plant and machinery; no cap
50% first-year allowance	100%'s companion for companies on new, unused special-rate assets: 50% up front, the rest through the special rate pool
40% first-year allowance	A permanent allowance from 1 January 2026 for qualifying new and unused main-rate plant and machinery: 40% up front, with the remaining 60% normally entering the main pool in the following accounting period; cars and second-hand assets excluded
Writing-down allowance (WDA)	Relief given at a percentage a year on a reducing-balance basis: main pool 14%, special rate 6%
Main pool / special rate pool	The two pools for assets not fully relieved up front; special rate (6%) holds integral features and higher-

Term	Meaning
	emission cars
Balancing charge	An amount added to taxable profit on certain disposals — either because disposal receipts exceed the relevant pool balance, or because a special disposal rule applies. Where full expensing or the 50% first-year allowance was claimed on the full asset cost, the special charge is respectively the whole or half of the disposal value; partial claims use a statutory relevant-proportion calculation
Benefit in kind	A taxable benefit an employee receives from employment, such as a company car; taxed on the employee, with Class 1A on the employer
P11D value / taxable car value	The statutory value used in the company-car calculation. It normally starts from the car's list (or notional) price, adds relevant accessories and allows specified adjustments such as qualifying employee capital contributions; it does not simply follow the car's second-hand market value
Appropriate percentage	The percentage determined mainly by CO2 emissions (and, for relevant low-emission cars, electric range) and applied to the statutory taxable car value in the company-car benefit calculation
Approved mileage allowance payment (AMAP)	For income tax, the approved amount for business use of an employee's private car is 55p for the first 10,000 miles and 25p thereafter in 2026/27. National Insurance has a separate 55p-per-mile figure for cars and vans for all business miles in 2026/27
Lease rental restriction	For most business car hires lasting more than 45 consecutive days, where the car's CO2 exceeds 50g/km, a flat 15% of the rental is disallowed, so only 85% is deductible
Making good	In the car-fuel context, reimbursing the employer for all private fuel by the statutory deadline (6 July after the tax year) so that the car fuel benefit is reduced to nil
Temporary workplace	A place attended only for a task of limited duration or for a temporary purpose. Travel can qualify, subject to rules including the 24-month test, the substantially-ordinary-commuting safeguard and, for services through an intermediary, section 339A
Work-related training	Training related to the employee's work; no benefit-in-kind charge, even for new skills. The company's deduction is a separate question and must meet the wholly-and-exclusively test
Intangible fixed assets regime	The corporation tax regime (CTA 2009 Part 8) under

Term	Meaning
	which most software rights a company acquires are relieved by following the accounting amortisation, rather than by capital allowances
Employment intermediary / personal service company	A company through which one person supplies their personal services to clients; may be within section 339A, which can make travel to a client site non-deductible commuting
Car fuel benefit	A separate taxable benefit where the company provides private fuel for a company car: the £29,200 multiplier for 2026/27 multiplied by the car's appropriate percentage, subject to any statutory reductions; simply using little private fuel does not reduce the charge

Sources

The content of this module is based on published legislation and official guidance. The **reference list** supplied with this module gives the full set of links. In outline, the principal sources are:

- **Corporation Tax Act 2009, sections 53 and 54** — the capital exclusion and the wholly-and-exclusively test
- **Capital Allowances Act 2001** — the annual investment allowance, first-year allowances, writing-down allowances and pools
- ***Mallalieu v Drummond*** [1983] — the classic dual-purpose clothing case for a self-employed trader; used here to illustrate duality, not as a substitute for testing a company's own purpose
- **Income Tax (Earnings and Pensions) Act 2003** — benefits in kind, the company car and van benefits, mobile phone and homeworking exemptions, work-related training, trivial benefits
- **Corporation Tax Act 2009, Part 8** — the intangible fixed assets regime, relevant to acquired software
- **Income Tax (Earnings and Pensions) Act 2003, section 339A** — employment intermediaries and the travel rules for personal service companies (HMRC Employment Status Manual ESM5600, ESM5570; the PSC test is the IR35 test, the MSC branch applies the supervision-direction-control test)
- **Income Tax (Earnings and Pensions) Act 2003, sections 316, 316A, 316ZA and 360B** — homeworking and reimbursement exemptions, and the closure of the employee's own household-cost claim from 6 April 2026
- **GOV.UK and HMRC manuals** — capital allowances rates, AIA period/group restrictions, timing and disposal rules for 2026/27 (including CA11800, CA23085/CA23088, CA23110, CA23174AD/CA23174AE and the 40% FYA guidance); company-car valuation and percentages (including EIM24015, EIM24705 and the PHEV easement at EIM24710); the section 239 exemption for reimbursed electricity to charge a company car (EIM23900); advisory electric rates; double-cab pick-up classification and transition rules (EIM23151 and CA23511); the car lease-rental restriction; car and van fuel-benefit rules; approved mileage allowance payments and the separate NIC mileage figure; and current expenses-and-benefits guidance
- **HMRC internal manuals** — the Business Income Manual (deductibility, capital/revenue, staff and client entertaining, software and training), the Employment Income Manual (benefits in kind, annual functions, trivial benefits, homeworking, employer-provided equipment, mobile phones, internet access, intermediary travel and incidental overnight expenses), the Property Income Manual (including the exclusions from the property allowance for rent from an employer or connected close

company), the Capital Gains Manual (Private Residence Relief and business/employment use of the home), and the Capital Allowances Manual

Several figures in this module changed with effect from April 2026 — the main pool writing-down allowance (to 14%), the approved mileage rate (to 55p) and the electric company car percentage (to 4%). When checking any figure, confirm the tax year of the page you are reading.

All rates, thresholds and allowances stated in this document are those applying for the 2026/27 tax year, and for corporation tax the financial year beginning 1 April 2026.

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REINZA TRAINING

Module RT-102 — Checklist

Allowable Expenses and Capital Allowances for an IT Services Company

Programme: Tax Essentials for the Owner-Managed IT Company
Module reference: RT-102
Version: v1.1
Content basis: rates, thresholds and allowances for the 2026/27 tax year (corporation tax: financial year beginning 1 April 2026)

> This material is provided for general training and educational purposes only. It does not constitute professional advice in relation to the specific circumstances of any person or entity. Independent professional advice should be obtained before acting on any matter covered in this material. Content is based on the rates, thresholds and allowances applying for the 2026/27 tax year and for the corporation tax financial year beginning 1 April 2026.

How to use this page. These are the review points that arise from Module RT-102, written as questions rather than instructions. They are questions a director of an owner-managed IT company might reasonably ask about their own arrangements, and the ones most likely to be raised by an adviser or on enquiry. They are general points of principle. A “no” or a “not sure” is not a conclusion about anything — it is a point to raise with a professional adviser, on the facts.

A. The two questions

	Review point	✓
A1	For each significant cost, is it clear whether it is capital or revenue before anything else is decided?	☐
A2	For a mixed cost, where a genuine apportionment is possible, is the business/private split identified and recorded rather than the whole amount claimed?	☐
A3	When the company pays for something the director uses, are both questions asked — the company’s deduction and any benefit in kind — not just the first?	☐
A4	Is it understood that whether the company can deduct a cost is a separate question from whether the director could have deducted it personally?	☐

B. Working from home

	Review point	✓
B1	Has the company identified which homeworking route applies — the £6-a-week flat rate, actual additional costs, or a formal rental arrangement — and documented it?	☐
B2	If more than the flat rate is claimed on an actual-cost basis, is there evidence of the genuinely additional cost of working from home?	☐
B3	Is it understood that council tax, mortgage interest and rent cannot be put through the company as homeworking costs by room proportion — that is a sole-trader rule?	☐
B4	If a formal rental arrangement is in place, is the rent declared as the director's property income, and has the capital-gains-tax position on the home been considered?	☐
B5	Are the homeworking arrangement and the payments made both documented, even though no evidence of actual cost is needed for the flat rate?	☐

C. Equipment, hardware and software

	Review point	✓
C1	Is equipment the company uses itself separated from hardware bought to resell — the first is capital, the second is trading stock?	☐
C2	Is unsold resale hardware carried as stock at the year end, rather than written off in full as cost of sales?	☐
C3	Is subscription software treated as revenue, and is it understood that outright-purchased software in a company may fall under the intangible fixed assets rules rather than capital allowances?	☐
C4	For company equipment with some private use, was it provided solely to enable the duties to be performed, with any private use not significant, so that the exemption can apply?	☐

D. Capital allowances

	Review point	✓
D1	For ordinary qualifying equipment, has an appropriate 100% relief route — often the annual investment allowance — been considered?	☐
D2	Is it understood that capital allowances are a choice — a claim can be made in full, in part or not at all — rather than automatic?	☐
D3	For any car, has it been recognised that AIA, full expensing, the 50% FYA and the 40% FYA are excluded, while a qualifying new zero-emission car has a separate 100% FYA?	☐
D4	On disposal, has the correct rule been applied — normal pool treatment for an AIA-relieved asset, and the separate immediate balancing-charge rule where full expensing was claimed?	☐
D5	For a purchase near year end, is the date the obligation to pay became unconditional — not simply the order date — used to decide the period, including the four-month rule where relevant?	☐
D6	Where the accounting period spans 1 April 2026, has the hybrid main-pool rate (between 18% and 14%) been applied?	☐

E. Vehicles and mileage

	Review point	✓
E1	For any company car, have both sides been valued — the company's capital allowances or lease deduction, and the director's benefit in kind with Class 1A?	☐
E2	Where a car is being chosen, has the electric-versus-petrol difference been run on the actual figures rather than assumed?	☐
E3	If a car is leased and its emissions exceed 50g/km, has the 15% lease-rental disallowance been applied?	☐
E4	Where the company provides private fuel in a petrol company car, has the fixed £29,200 fuel-benefit multiplier been weighed — and the making-good option by 6 July considered?	☐
E5	For a privately owned car, is business mileage reimbursed at 55p for the first 10,000 miles and 25p thereafter — not the old 45p?	☐
E6	Is a mileage log kept for every business journey, with date, route, purpose and distance?	☐
E7	Above 10,000 miles, is it understood that the income-tax and National Insurance mileage figures diverge?	☐
E8	If a vehicle is a double-cab pick-up, have its current tax classification and any applicable transitional protection been checked?	☐

F. Phone, broadband and travel

	Review point	✓
F1	Is the mobile phone contract in the company's name, so that the one-phone exemption can apply, with the genuine employment cost normally deductible and no benefit in kind?	☐
F2	Is it understood that a shared home broadband line cannot be reimbursed tax-free, even under the 2026 section 316ZA exemption, because of the sole-purpose condition?	☐
F3	Is travel to a client site treated as deductible only where that site is a genuine temporary workplace — not automatically because the director works from home?	☐
F4	For a long engagement or PSC arrangement, have the 24-month rule and, separately, section 339A/IR35 been considered without treating client count as the legal test?	☐
F5	Are subsistence and overnight costs on qualifying journeys claimed, with the £5/£10 incidental overnight limit observed as a cliff edge?	☐

G. Entertaining, training and records

	Review point	✓
G1	Is ordinary client entertaining added back as disallowed, rather than deducted?	☐
G2	For a staff event, is it understood that £150 a head is an employee-side exemption, all-or-nothing per event, not a limit on the company's deduction?	☐
G3	Are trivial benefits (£50 or less, not cash or a cash voucher, not a reward, not contractual) kept within the director's £300 annual cap, shared with relevant family/household benefits?	☐

	Review point	✓
G4	For employer-funded work-related training, are the employee exemption and the company's separate trade-purpose deduction test both considered, without relying on the outdated "new skill is capital" rule?	☐
G5	Are records — receipts, business purpose, contracts, capital-asset and stock records — kept for at least six years from the end of the relevant accounting period?	☐

The five points most often found wanting

Not a ranking of importance — a ranking of how often each turns out to be missing.

1. **The mileage log does not exist.** The mileage claim rests entirely on it, and it is the record most often reconstructed from memory a year later.
2. **A car was made a company car without valuing both sides.** The benefit in kind and the slow capital allowances were not weighed against private ownership with mileage.
3. **The mobile contract is in the director's personal name, so the one-phone exemption does not apply and the payment/reporting mechanics need separate treatment.**
4. **Ordinary client entertaining was deducted. It is normally disallowed and added back unless a specific statutory exception applies.**
5. **The old 45p mileage rate is still being used.** It rose to 55p in April 2026, and most templates still say 45p.

Reinza Limited, trading as Reinza Training. Module RT-102, checklist, version v1.1.

REINZA TRAINING

Module RT-102 — Reference List

Allowable Expenses and Capital Allowances for an IT Services Company

Programme: Tax Essentials for the Owner-Managed IT Company
Module reference: RT-102
Version: v1.1
Content basis: rates, thresholds and allowances for the 2026/27 tax year (corporation tax: financial year beginning 1 April 2026)

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About this list

The content of Module RT-102 is based on UK legislation and on HMRC's published guidance and internal manuals. This page lists the principal sources, grouped by the section of the module they support, so that any point can be traced back to its origin.

Two kinds of source appear. **Legislation** is the law itself. **HMRC manuals** are HMRC's own published interpretation of that law; they are guidance rather than law, but they are the clearest published statement of how HMRC applies the rules in practice. Where a figure or rule is likely to change between tax years, that is noted.

A short note on currency follows the list, because several of the figures in this module changed with effect from April 2026.

A. The principle — what makes an expense allowable

Legislation

- Corporation Tax Act 2009, section 54 — the "wholly and exclusively for the purposes of the trade" test for deductibility.
- Corporation Tax Act 2009, section 53 — the exclusion of capital expenditure from trading deductions.

Case law

- *Mallalieu v Drummond* [1983] STC 665 — duality of purpose; a cost with an inseparable private purpose is not deductible.

HMRC manuals

- Business Income Manual, BIM37000 onwards — wholly and exclusively; the duality principle.
- Business Income Manual, BIM35000 onwards — the capital/revenue divide.

B. Working from home

Legislation

- Income Tax (Earnings and Pensions) Act 2003, section 316A — the homeworking flat-rate exemption.
- Income Tax (Earnings and Pensions) Act 2003, section 360B — the closure, from 6 April 2026, of an employee's own deduction for unreimbursed additional household costs.

HMRC manuals

- Employment Income Manual, EIM01472 — homeworking expenses and the flat rate.
- Employment Income Manual, EIM32760 onwards — household expenses of working from home.
- Property Income Manual, PIM4482 — the property allowance and its exclusion where the payer is a connected party (relevant to a director renting to their own company).
- Capital Gains Manual, CG64663 onwards — private residence relief where part of a home is used exclusively for business.

C. Equipment, hardware and software

Legislation

- Corporation Tax Act 2009, Part 8 — the intangible fixed assets regime, relevant to acquired software.
- Income Tax (Earnings and Pensions) Act 2003, section 316 — employer-provided equipment: sole-purpose requirement and non-significant private use.

HMRC manuals

- Business Income Manual, BIM35801 — computer software; capital or revenue.
- Corporate Intangibles Research and Development Manual, CIRD25180 — software and the intangible fixed assets regime.
- Business Income Manual, BIM33430 — purchases of stock in trade.

D. Capital allowances

Legislation

- Capital Allowances Act 2001 — the annual investment allowance, first-year allowances, writing-down allowances and pools.
- Finance Act 2021 and later — full expensing and the 50% first-year allowance for companies.

HMRC manuals

- Capital Allowances Manual, CA23084 onwards — the annual investment allowance.

- Capital Allowances Manual, CA23161 onwards — full expensing and the 50% first-year allowance, including disposal balancing charges; CA23174AD/CA23174AE — the 40% first-year allowance from 1 January 2026.
- Capital Allowances Manual, CA23220 — writing-down allowances and the main-pool rate (14% from 1 April 2026), including the hybrid rate for periods spanning the change.
- Capital Allowances Manual, CA23510 onwards — the special rate pool.
- Capital Allowances Manual, CA23153 — cars and the first-year allowance for zero-emission cars.
- Capital Allowances Manual, CA11800 — the meaning of expenditure "incurred", including the four-month rule.

E. Vehicles and mileage

Legislation

- Income Tax (Earnings and Pensions) Act 2003, sections 120–148 and 154 onwards — the company car, van and van-fuel benefit rules.
- Income Tax (Earnings and Pensions) Act 2003, sections 149–153 — the car fuel benefit rules.
- Income Tax (Earnings and Pensions) Act 2003, sections 229–236 — approved mileage allowance payments.

HMRC manuals and GOV.UK

- Employment Income Manual, EIM23900 — the section 239 exemption for reimbursed electricity to charge a company car.
- Employment Income Manual, EIM23151 — double-cab pick-up classification and the transitional rules from April 2025.
- Employment Income Manual, EIM24710 — the plug-in hybrid benefit-in-kind easement.
- Employment Income Manual, EIM25650 — the car fuel benefit and the making-good rule.
- Business Income Manual, BIM47725 — the 15% lease-rental restriction for cars over 50g/km.
- GOV.UK, "Calculate tax on company cars" — the appropriate percentages for 2026/27.
- GOV.UK, "Travel — mileage and fuel rates and allowances" — the approved mileage rate of 55p (from 6 April 2026) and 25p, and the advisory electric rate.

F. Phone and broadband

Legislation

- Income Tax (Earnings and Pensions) Act 2003, section 319 — one mobile phone provided to an employee.
- Income Tax (Earnings and Pensions) Act 2003, section 316ZA — the reimbursement exemption from 6 April 2026.

HMRC manuals

- Employment Income Manual, EIM21779 onwards — mobile telephones.
- Employment Income Manual, EIM21617 and EIM21619 — internet access and the reimbursement exemption; the sole-purpose condition.

G. Travel and subsistence

Legislation

- Income Tax (Earnings and Pensions) Act 2003, sections 337–339 — travel in the performance of duties and to temporary workplaces.
- Income Tax (Earnings and Pensions) Act 2003, section 339A — employment intermediaries and the travel rules for personal service companies.
- Income Tax (Earnings and Pensions) Act 2003, section 240 — incidental overnight expenses.

HMRC manuals

- Employment Income Manual, EIM32000 onwards — travel expenses; the temporary workplace rules and the 24-month rule.
- Employment Status Manual, ESM5600 and ESM5570 — the section 339A modifications; the IR35 test for a personal service company and the supervision, direction or control test for a managed service company.
- Employment Income Manual, EIM02710 — incidental overnight expenses and the £5/£10 limits.

H. Entertaining and staff costs

Legislation

- Corporation Tax Act 2009, sections 1298–1300 — the disallowance of business entertaining.
- Income Tax (Earnings and Pensions) Act 2003, section 264 — the annual parties and functions exemption.
- Income Tax (Earnings and Pensions) Act 2003, sections 323A–323B — trivial benefits, including the annual cap for a director of a close company.

HMRC manuals

- Business Income Manual, BIM45000 onwards — entertaining.
- Employment Income Manual, EIM21690 onwards — annual functions and parties.
- Employment Income Manual, EIM21864 onwards — trivial benefits.

I. Training

Legislation

- Income Tax (Earnings and Pensions) Act 2003, sections 250–254 — work-related training.

HMRC manuals and GOV.UK

- Employment Income Manual, EIM01200 onwards — work-related training provided for employees.
- Business Income Manual, BIM35660 — training costs for the self-employed, including HMRC’s updated (2024) treatment of training that provides new skills related to the existing trade.

J. Records and evidence

Legislation

- Finance Act 1998, Schedule 18 — company record-keeping and the retention period.

HMRC manuals and GOV.UK

- Company Taxation Manual, CTM95000 onwards — company records.
- GOV.UK, "Running a limited company: company and accounting records" — the six-year retention period.

A note on currency

Tax rates, thresholds and allowances change, usually from the start of a tax year or a corporation tax financial year. Everything in this module is stated for the **2026/27 tax year** and, for corporation tax, the **financial year beginning 1 April 2026**.

Three figures in this module changed with effect from April 2026, and older published material — including some still online — may show the previous figure:

- the **main pool writing-down allowance** fell from 18% to **14%** on 1 April 2026;
- the **approved mileage rate** rose from 45p to **55p** for the first 10,000 business miles on 6 April 2026, the first change since 2011/12;
- the **fully electric company car** appropriate percentage rose from 3% to **4%**.

When checking any figure against an online source, confirm the tax year the source relates to before relying on it. Where a figure or rule is applied to a real decision, obtain independent professional advice on the current position and the specific facts.

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