



MILEAGE -V- EXPENSES

WHICH IS BETTER?

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Contents

Disclaimer	2
Mileage vs.Vehicle Expenses.....	3
Which is better claiming mileage or claiming the actual expenses incurred on the vehicle	3
<i>Scenario.....</i>	<i>3</i>

Disclaimer

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Mileage -v- Vehicle Expenses

Which is better claiming mileage or claiming the actual expenses incurred on the vehicle?

If you use your personal vehicle for your job, you are entitled to claim a mileage allowance for its use. There are of course some limits. The amount you can claim is currently at 45p per mile up to 10,000 miles then 25p thereafter.

This mileage is of course the miles used in the running of your business, discounting the personal mileage i.e. going shopping.

Scenario

In six months of your business you earned £24,000. You incurred £560 in vehicle expenses, say tyres and repairs, and £900 in other business related expenses. The total miles the vehicle travelled was 1000, but 700 of those was for your business, so you can only claim 70% of the vehicle expenses.

You can claim either **but not both**. So you need to calculate which is better for you and your business. The more miles you do the better the mileage allowance is for you, but the down side is there is more wear and tear on the vehicle.

Now you need to calculate the proportion of the vehicle expenses and the mileage allowance to see which would be more tax efficient (*based on 2016-2017 personal allowances*).

	With Expenses Only	With Mileage Allowance
Total Income	£24,000.00	£24,000.00
Total Vehicle Expenses (@ 70%)	£392.00	£0.00
Total Mileage Allowance (700 x 45p)	£0.00	£315.00
Total Other Expenses	£900.00	£900.00
Taxable Profit	<u>£22,708.00</u>	<u>£22,785.00</u>
Tax Payable	£2134.60	£2357.00

You can see from the above example that in this case it would be better to claim the vehicle expenses and not a mileage allowance as you would pay less tax. Let's assume that you use the vehicle more and travelled an extra 1,000 miles.

	With Expenses Only	With Mileage Allowance
Total Income	£24,000.00	£24,000.00
Total Vehicle Expenses (@ 85%)	£476.00	£0.00
Total Mileage Allowance (1700 x 45p)	£0.00	£765.00
Total Other Expenses	£900.00	£900.00
Taxable Profit	<u>£22,624.00</u>	<u>£22,335.00</u>
Tax Payable	£2324.80	£2267.00

Now the mileage has increased, but the vehicle expenses have only increased by a proportion as now 85% is business use. The mileage allowance goes up by the whole 1,000 miles. This way you pay less tax if you claim the mileage allowance.

This is just a rough outline. You cannot know exactly which is better for you unless you do these calculations every month. As bookkeepers we will do these calculations for you and advise you of the best way to go, saving you time and ultimately money.

I do have a custom spreadsheet available which can be purchased or included in a complete bookkeeping package that tells you exactly which is the best way to claim and will even estimate the tax and NI that you owe to date. This way you can put money to one side in readiness for the end of year tax bill.

| *Email me at: info@booksmart.co for details of the spreadsheet.*