



# INNOVATIVE ENTREPRENEURSHIP



## Calculating Tax, Business Expenses and Capital Allowances



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# Calculating Tax, Business Expenses and Capital Allowances

*This factsheet explains what business expenses and capital allowances are. It also provides examples of how these are used for calculating tax.*

If you're self-employed, your business will have various running costs. You can deduct some of these costs to work out your taxable profit, as long as they are allowable expenses.

## Example

Your turnover is 100,000 TL, and you claim 40,000TL in allowable expenses. This leaves 60,000TL as your taxable profit.

## ALLOWABLE BUSINESS EXPENSES

Allowable expenses do not include money taken from your business to pay for personal purchases. Typical business expenses/ costs you can claim as allowable expenses include;

- running office costs – e.g. stationary, internet and phone
- travel costs – e.g. fuel, parking, vehicle repairs, train, bus and air fares. Also accommodation costs.
- clothing expenses- e.g. uniform, protective clothing
- staff costs- e.g. salaries or subcontractor costs
- things you purchase to sell on- e.g. stock, raw materials and packaging
- financial/ legal costs e.g.- Accountant, Solicitors insurance and bank charges such as loan interest
- costs of your business premises e.g.- rent, heating, lighting and electric
- advertising or marketing – e.g. newspaper advertisements, flyers and brochure costs
- training courses related to your business – e.g. refresher course

Generally, these expenses are concerned with the day to day running costs of the business. It is important to note that if you use something for both business and personal reasons you can only claim allowable expenses for the business costs.

## Example

Your mobile phone bills for the year total 1,000TL. Of this, you spend 400 TL on personal calls and 600TL on business. You can claim for 600TL of business expenses.





If you work from home, you may be able to claim a proportion of your costs (up to %50) for things like:

- heating
- electricity
- Municipality Taxes
- mortgage interest or rent
- internet and telephone use

You'll need to find a reasonable method of dividing your costs, for example by the number of rooms you use for business or the amount of time you spend working from home.

### Example

You have 4 rooms in your home, one of which you use only as an office. Your electricity bill for the year is 1,000 TL. Assuming all the rooms in your home use equal amounts of electricity, you can claim 250TL as allowable expenses (1,000 divided by 4). If you worked only one day a week from home, you could claim 35.71TL as allowable expenses (250TL divided by 7).

## CAPITAL ALLOWANCES

Capital allowances differ from business expenses in that they provide a tax deduction against a business's taxable profits and therefore reduce the amount of corporation tax that is payable.

### Example

Your turnover is 100,000 TL, and you claim 40,000TL in allowable expenses. This leaves 60,000TL as your taxable profit. If you have a Capital allowance value of 25,000TL this means that your tax liability is calculated on 35,000TL.

The value of the allowance is based on the cost incurred when fixed assets are bought and used in a business. The most common examples of capital expenditure are physical fixed assets, such as computers, office equipment, manufacturing plant and machinery, and motor vehicles.

To ensure compliance with tax legislation, it is necessary to be clear whether a purchase made by a business qualifies as capital or revenue expenditure. Revenue expenditure covers the purchase of items needed for the day-to-day running of the business. These do not qualify for capital allowances, but are wholly tax deductible. Capital expenditure covers the purchase of assets that:

- are not consumed or resold by the business.
- have a useful life of more than one year.
- expected to have value after one year.





Legislation covering capital allowances is an area of tax law that often changes and it is therefore necessary to review the rules regularly. This is particularly important when making purchases which are only affordable if they qualify for tax relief from capital allowances. As with all tax issues it is best practice to use the services of an Accountant to ensure compliance with all the various tax legislations and to ensure you are benefitting from any potential tax saving schemes.

