



# Pre Trading Expenses

## What can you claim...

By the time you actually start trading, you may have spent thousands of pounds on research and setting up the business.

Provided you have formally notified HM Revenue & Customs that you have started up a business, most of these costs are usually allowable as business expenses in the first year.

Income Tax (Trading and Other Income) Act 2005

### Pre-trading expenses

(1) This section applies if a person incurs expenses for the purposes of a trade before (but not more than 7 years before) the date on which the person starts to carry on the trade ("the start date").

(2) If, in calculating the profits of the trade—

(a) no deduction would otherwise be allowed for the expenses, but

(b) a deduction would be allowed for them if they were incurred on the start date,

the expenses are treated as if they were incurred on the start date (and therefore a deduction is allowed for them).

<http://www.legislation.gov.uk/ukpga/2005/5/section/57>

<http://www.hmrc.gov.uk/manuals/bimmanual/bim46355.htm>

## What about VAT?

You can reclaim any VAT you are charged on goods or services that you use to set up your business.

Normally, this will include:

- VAT on goods you bought for your business within the last 4 years and which you have not yet sold.
- VAT on services, which you received not more than 6 months before your date of registration.

You should include this VAT on your first VAT return. (Notice 700/1 April 2010 4.2)

## How do you claim?

As the costs were incurred before your business started the expenses will normally have been invoiced to you or incurred by you.

So, the most common approach is to prepare an expense claim form and submit it to your business.

The claim will be dated for the first day that trading commenced.

**Pre Trading expenses will help  
save tax in your first year of  
trading**