**Budget clarity on self-employed training costs**

6th Mar 2024

As part of the Spring Budget, HMRC have published some new and updated guidance on when self-employed individuals can get a deduction for the costs of training.

**What’s the problem?**

Under the income tax rules, the self-employed can only deduct the costs of training, provided it is incurred “wholly and exclusively” for the purposes of their existing business and is not capital in nature.

It’s often relatively easy to say whether or not a training cost meets the wholly and exclusively test. However, determining whether it is capital or revenue can be trickier. As a rule, expenses relating to developing new skills or retraining with a view to changing occupation will generally be capital and therefore non-deductible.

For example, someone taking initial training to be a driving instructor would not be able to claim a deduction, as that would be a capital cost incurred to set up their business.

There have, to date, been several grey areas where it’s not clear if a deduction is available. If a GP decides to specialise in a particular area, is that a new skill, or just updating existing medical knowledge? Or if a plumber decides to undertake a bookkeeping course to improve their business records, can they get a deduction?

Whilst the training will involve the acquisition of new skills and knowledge, these will be used to benefit the plumber’s existing business, rather than starting a new one.

**What’s changed?**

Given these grey areas, HMRC’s approach of refreshing and revitalising the guidance is very welcome. HMRC have updated their Business Income Manual guidance in [BIM35660](https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim35660) and [BIM42526](https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim42526) to confirm that:

* Where training updates or provides expertise or knowledge in the individual’s existing business area the costs will normally be revenue in nature
* The costs of acquiring new skills or knowledge to keep pace with advancements in technology and changes in industry practices will usually be allowable, provided they relate to the taxpayer’s existing business
* If training is ancillary to the main trade, such as introductory bookkeeping or digital skills, the costs may also be revenue depending on the specific circumstances

Alongside this, HMRC have published a helpful [new page of examples](https://www.gov.uk/guidance/check-if-the-cost-of-training-could-be-an-allowable-business-expense) on GOV.UK to expand on and illustrate the points above. In particular, these confirm that our plumber who wants to learn to keep better books should be able to get a deduction.

**A level playing field?**

These changes aside, the rules on deductibility of training costs for the self-employed remain much stricter than for employers, who can claim tax relief much more easily for the cost of training employees, even in new skills.

Arguably, the employed and self-employed should have a more level playing field when it comes to tax relief on work-related training costs.