

HOME OFFICE GARDEN SHED OR WORKING POD – TAX ISSUES TO CONSIDER FOR EMPLOYEES



The millions of people throughout the UK, now opting to work from home, has been the catalyst for the rising interest in the possibilities of buying or building a work-related shed, pod or garden home office.

As an employee you have different tax implications to consider than your employer does. That being said, there are still numerous benefits offered through the use of a garden home office. Some of these include:

- Certain costs being tax-deductible
- Exemptions through Capital Allowances
- Being able to avoid a BiK charge by determining the use of the space
- There being no issue with CGT when it comes to the selling of your property if it remains a moveable structure

However, although offering the above benefits, there are reasons to be cautious. If this is something that you are considering then any such plan requires close scrutiny. If you convert a shed, buy or build a new garden pod to work from home, you need to consider the tax implications.

In this Broadcast we explore these implications in detail, focusing on areas regarding capital allowances, VAT, BIK, business rates, and CGT.

Capital Allowances – the drawbacks

There are likely to be two main types of ways to qualify for Annual Investment Allowance (AIA) or Plant and Machinery (P&M). In the case of AIA, businesses are able to claim 100% of the cost of the asset in the first year (subject to the annual limit). The issue is that not all assets qualify for the AIA.

Structures and buildings are, unfortunately, a class of asset that do not qualify for Capital Allowances at all. This is due to them not being regarded as P&M because, instead, they are considered a place or setting wherein the business is conducted. Due to this, it is not possible to get Capital Allowances for the office construction costs.

Furthermore, a claim cannot be made under the Structures and Buildings Allowance (SBA) due to the expenditure being on residential property; structures that function as dwellings do not qualify for the relief. Even when the structure is used exclusively for business purposes, HMRC will remain firm in their argument that you intended to use the property for residential purposes.

Capital Allowances – the benefits

Although the permanent structure of the home office itself does not qualify for tax relief, fixtures and fittings do.

Therefore, you are able to claim for the costs of aspects such as furniture, curtains, shelves etc. Additionally, the cost of installing power (including electrical wiring, light fittings and heating) qualify. Insulation, although being part of the initial construction, also qualifies. As an employee, the best way to go about acquiring this relief is to give a license to your employer to acquire the land, so that you can then claim the tax reliefs above against the rent received.

Benefit in Kind (BiK) – the drawbacks

BiK tax is incurred when a company/business pays for an employee's personal expenses. If the company pays for the garden office, and it is only used for business use, then you will avoid a BiK charge.

If you do decide that no personal use will be allowed, you may need to provide evidence of this. It is not uncommon for HMRC to assume there is personal use within the structure – this could include anything as minor as reading your book in there or using it as storage.

HMRC have provided guidance on how this benefit would be calculated. This can be found [here](#).

Business Rates – the drawbacks

There may be business rates to pay on the proportion of the structure that is used exclusively for business purposes. When having your home valued by the Valuation Office Agency, for the purpose of determining your property's Council Tax and non-domestic rates, business rates may also be payable. If part of the home office will be used for domestic purposes, council tax will remain payable for this part – which is your responsibility as an individual and something that your employer cannot pay. Therefore, if you are intending to use the home office for dual purpose (both business and domestic) then be aware that council tax will be something that you have to pay.

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Capital Gains Tax (CGT) – the drawbacks

When it comes to the selling of an employee's main residence, you are entitled to a tax exemption called Principal Private Residence Relief (PPR) and don't usually have to pay CGT on any gains made from the sale of the residence. However, when a permanent garden home office is included with the property, one wherein it is used exclusively for business purposes, this relief will be restricted. You need to allocate the gain on a reasonable basis, and the office portion will be liable to CGT.

If, the garden home office is used for personal as well as business purposes, you will not be liable for CGT but will incur a BiK charge, as explained above.

Please note that as an employee the CGT payment is responsible to the individual, not your employer, so you will not get any relief in this way. Therefore, it is important that you weigh up the pros and cons before deciding.

Capital Gains Tax (CGT) – the benefits

However, if the garden office is a structure that is able to be uninstalled and moved, there will be no CGT issue.

VAT

There are generally no VAT issues for employees to consider, they are all for the employer.

Next Steps

To better understand the tax implications and to determine whether this option best suits your personal circumstances, we suggest that you speak to a member of our tax team for further clarification.

Call us on **01753 888211** or email **info@nhllp.com** we would be happy to assist.