

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



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.

Having a home office does offer numerous benefits, including:

- Certain costs being tax-deductible
- Fixtures and fittings falling under the category of capital allowance tax relief
- Being able to avoid a BiK charge through determining the use of the space
- Being able to avoid Business rates payments through using the space for both business and personal means
- 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 corporation tax, capital allowances, VAT, BIK, business rates, and CGT.

Corporation Tax – the drawbacks

Although your company can pay for your employee the cost of the garden office (as long as it is used for business purposes), no corporation tax deduction can be claimed. This is due to HMRC seeing this as a capital expense rather than a revenue expense because the building is expected to be used for a reasonable period and will benefit the business. Therefore, no immediate tax relief can be claimed.

Similarly, for the same reasons, design and planning, construction and initial decoration costs are also non-tax deductible.

Corporation Tax – the benefits

Reimbursed running costs paid to your employee such as heating and lighting, water rates (if the supply of water is separately metered from the home) are all tax-deductible. Repairs, including redecoration costs are also tax-deductible.

Capital Allowances (CAs) – the drawbacks

There are likely to be two main types of CAs; either qualifying for Plant and Machinery (P&M) or Annual Investment Allowance (AIA). 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. Therefore, the only way around this (and to use this allowance) is to buy or take on a lease for that piece of land from your employee where the office will be installed. This could create a Stamp Duty Land Tax (SDLT) cost of over £150,000. More importantly, it will create a Capital Gains Tax cost for you employees on the sale of their main residence (which will we explain in further detail below).

Capital Allowances – the benefits

Although the permanent structure itself does not qualify, fixtures and fittings do. Therefore, you are able to claim for the costs of items 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.

Benefit in Kind (BiK) – the benefits

BiK tax is incurred when a company/business pays for the director's/employee's personal expenses. This is why establishing the purpose of the garden home office is so important. If the company pays for the garden office, and it is only used for business use, then you will avoid a BiK charge.

For all the latest news...

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](#).

However, whilst this stops the BiK it will create Capital Gains Tax issues for the employee when they sell their main residence (explained below).

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. Therefore, it is always best to contact the valuation office during the process of project planning to work out the full scope of the business rates implications. If part of the home office will be used for domestic purposes, council tax will remain payable for this part.

Capital Gains Tax (CGT) – the drawbacks

When it comes to the selling of the employee's property, they 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, which is used exclusively for business purposes, this relief will be restricted. They 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 and well as business purposes, they will not be liable for CGT but will incur a BiK charge, as explained above.

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

VAT cannot be reclaimed if the structure is being used exclusively for personal use.

VAT incurred on the cost of building the structure, furniture or furnishing of the office can be fully reclaimed as long as it is solely used for business purposes.

However, if the garden home office is being used for both business and private means, only the business proportion of VAT can be reclaimed.

Please note: if you use the VAT flat rate scheme this is decidedly more complicated and you must seek specific advice on your particular circumstances.

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.