



If you are choosing, or required to work from home, you may be able to benefit from a number of tax breaks. The nature of the available tax breaks varies depending on whether you are an employee, self-employed or operate your own limited company. Separate considerations also arise if you have a home office.

## Employees working from home

The tax breaks available to employees working from home fall into two camps:

- tax-free benefits and expenses provided by their employer and
- deductions that they can claim for expenses that they incur because of working from home.

**Tax-free benefits and expenses** – Employers can provide the equipment and supplies that the employee needs to work from home, such as office furniture, stationery, or a computer without a taxable benefit arising. This applies as long as ownership of the equipment remains with the employer and private use is not significant.

Employers can also pay employees a tax-free allowance of £6 per week (£26 per month) to cover the cost of additional household expenses incurred because of working from home.

**Tax relief for expenses** - Generally, employees are only able to claim tax relief for expenses incurred wholly, exclusively, and necessarily in the performance of the duties of their employment. This is a hard test to meet, and where expenses tick this box, a deduction is allowed.

## Self-employed and working from home

If you are self-employed and working from home, expenses are deductible if they are wholly and exclusively incurred for the purposes of the business. This will apply to costs incurred in running a home office, such as cleaning, heat and light, Wi-Fi costs etc. Where there is both business and private use, a deduction is allowed for the business element, if this can be separated out.

Keeping a track of actual expenses can be time consuming. To save time, if you are self-employed you can opt to use simplified expenses and claim a flat rate deduction for the expenses of working from home, based on the total number of hours worked in the home in the month by anyone who works in the business. The following table shows the monthly flat rate deduction that can be claimed.

Hours of business use per month	Flat rate per month
25 to 50 hours	£10
51 to 100 hours	£18
More than 100 hours	£26

The flat rate expenses do not include telephone and internet expenses and a separate deduction can be claimed for these.

## Running a personal or family company from home

Where your company is based at home, the company can deduct expenses wholly and exclusively incurred for the purposes of the business. If the company meets household costs these can be deducted, but any private expenses met by the company will trigger a benefit in kind charge on the director. If the director pays the household expenses, the proportion relating to the business can be recharged to the company.

The company can also rent a home office from the director, paying rent at a commercial rate. This may be a useful way of extracting funds from the company and has the advantage that no National Insurance is payable. The company can deduct the rent paid when working out their profits chargeable to corporation tax.

On the other side of the equation, the rent is taxable in the hands of the director.

## Building a home office

Having a separate office in the garden, or converting the garage, can be attractive. The extent to which any tax relief is available will depend on who meets the costs.

If you operate through a limited company, the company can meet the cost of building a home office. As this is capital expenditure, the building costs cannot be deducted, although capital allowances may be claimed for items such as office furniture. If the company is VAT-registered and not using the flat rate scheme, the VAT on the building costs can be reclaimed. The rules are more complicated where the flat rate scheme is used.

If you are a director or your family use the home office for personal use, a benefit in kind charge will arise.

A benefit in kind charge will also arise if an employer meets the costs of converting an employee's loft or garage to an office, and the room is also available for private use.

## Capital gains tax implications

If part of a home is used exclusively for business, that part will not benefit from the main residence exemption for capital gains tax.

Thus, when selling the property, it is necessary to apportion the gain to ascertain that part attributable to the home office.

However, in most cases, any gain pertaining to a home office will be covered by the annual exempt amount (currently, this exempt amount is £6,000 and from April 2024 there will be a reduction to £3,000).

Retaining some private use of the room – for example, using it for the business in the day and homework in the evening, alleviates the potential capital gains problem and preserves the main residence relief.

Where a separate home office in the garden is owned by a limited company, any gain on sale would be chargeable to corporation tax.

## We can help

If you are considering or have been obliged to work from home, we can help you consider your options.

For example, you may have been involved in:

- Setting up a home office.
- Claiming for additional costs if you work from home.
- Clarifying capital gains tax risks.
- Will working from home affect your rates?

If you are working from home and want to ensure that you do not miss out on valuable tax breaks, please call us on **01753 888211** or email **info@nhllp.com**