

WORKING FROM HOME: WHAT YOU CAN CLAIM FOR

The working from home rules haven't changed but are certainly more relevant than ever as larger numbers of employees are required to work from home due to the Covid19 pandemic.

HMRC has confirmed that if you have to work at home on a regular basis you are entitled to claim tax relief. If you simply choose to work from home **no relief** is available.

HMRC's guidance indicates that where an employee is working from home due to COVID-19 either because the employee's workplace has closed or the employee is following advice to self-isolate, a homeworking arrangement will exist for this period. In any other case where an employee is working from home it is advisable to agree with the employee in writing that homeworking arrangements exist.

Below is a guide to what you can claim for if you are working from home including information on the homeworking exempt amount, allowable costs, the reimbursement of qualifying expenses and the rules around travel expenses.

Homeworking exempt amount

From 6 April 2020 you can either claim tax relief, or your employer can pay you, up to £6 a week (£26 a month) to cover your additional costs if you have to work from home. For previous tax years the rate is £4 a week (£18 a month). If this option is taken you will not need to keep any records. Employees who wish to deduct more will be expected to keep records and to be able to show how their figure has been calculated.

Allowable costs

If you wish to calculate actual costs these must be qualifying (i.e. to do with your work), for example:

- business telephone calls
- the extra cost of gas and electricity for your work area (heating and lighting costs)
- any additional insurance
- metered water

Not allowable

You cannot claim for things that you use for both private and business use, for example:

- mortgage repayments (including interest)
- rent
- council tax
- water rates

Broadband access is also not allowable unless this was not previously available and was installed specifically to work from home.

Employer provided assets

Employers can provide the necessary office furniture, equipment and internet connections for a homeworker, without there being a liability for the employee so long as:

- the sole purpose is to enable the employee to perform the duties
- private use is insignificant

However, one exception to note is that the provision by an employer to an employee of one mobile phone and SIM card including any line rental and calls for that phone paid directly by an employer is exempt from tax irrespective of whether there is any private use.

Employee provided assets

Generally, where an employee provides their own equipment in order to work at home no tax relief is available for the cost of that equipment. However, where plant or machinery, such as a computer is necessarily provided by an employee, for use in the performance of the duties, the employee may be entitled to a deduction by way of capital allowances for depreciation related to its business use.

Employer reimbursements

Employers can pay or reimburse qualifying expenses in full. For example, the reimbursement by an employer to an employee of the cost of purchasing stamps, stationery etc.

However, the reimbursement by an employer to an employee of the cost of purchasing, for example, office furniture, computers, printers etc is taxable. The position may, however, be different where an employee makes a payment on their employer's behalf. For example, where an employer authorises an employee to purchase a monitor on the employer's behalf for delivery to the employee's home and for use by the employee in the performance of their duties. It would be advisable to seek tax advice in these circumstances.

Travel

Where an employee performs substantive duties of their employment at home as an objective requirement of the job, their home is likely to be a workplace for the purposes of the 'travelling in the performance of the duties' rule.

However it is important to note that where an employee is required to work at home on some days and at their company's offices on others, the travel between home and the company's offices on the days they are required to be there will be 'ordinary commuting' and not tax deductible.

Where an employee uses their own vehicle for a qualifying business journey an employer can make an "Approved Mileage Allowance Payment" (AMAP) to the employee.

The approved mileage rates are 45p per mile for the first 10,000 business miles each tax year and 25p per mile thereafter. These payments are tax and NIC free. Where payments exceed the approved rates, the excess is taxable.

WHAT DIRECTORS CAN CLAIM FOR

There are also implications for Directors of owner managed businesses if the company builds an office at your home or rents a room from you for business purposes.

With more and more people working from home, we look at the rules around what Directors of owner managed businesses can claim for in relation to home working costs.

Company builds an office at your home

Where a company pays for an office (i.e. an extension) at a Director's home this asset should be recognised on the company balance sheet. If the company has exclusive use of the office (i.e. through a lease agreement) or simply a right to occupy the premises (a licence) there should be no benefit in kind implications provided that any private use is incidental.

For capital gains tax purposes where a room/building has been used solely for business purposes you would not benefit from principal private residence relief on this proportion. Therefore, when the residence is sold this proportion will be liable to CGT, having been used exclusively for business purposes, and the base cost will be limited to your original cost (you can't include any costs paid for directly by the company).

The alternative is to argue that the room/building is not used solely for business use (i.e. private use at weekends). This would negate the capital gains tax charge on future sale but would bring you back within the scope of a potential benefit in kind charge.

The company is unlikely to be able to claim any relief on the structural build cost (potential relief on integral features such as lighting, electrics, air conditioning etc only). However, tax relief can be obtained through capital allowances on any furniture or equipment installed such as desks, chairs and shelving units that the company pays for. Running costs for the office (i.e. electricity, gas and water) can be claimed as business expenses.

The company should also be able to reclaim input VAT on the build as it will occupy as tenant for the purpose of its trade. Further advice should be taken to consider specific VAT implications.

Company rents an existing office/room from you

Alternatively, you may decide to charge the company rent for the use of an existing room in your property. You would need to draw up a rental agreement between you and the limited company and include this rent as rental income on your own tax return.

Rent a room relief does not apply to such payments and therefore to avoid a tax charge the level of rent would need to be calculated to reflect business usage of the property. As you are receiving rental income this would include the relevant proportion of the rent or mortgage interest paid. The proportion can be calculated by reference to the number of rooms (or square footage) and the amount of time used for business purposes (i.e. exclude weekends).

If the rent paid should exceed allowable costs this would give rise to an income tax charge. There would however be corporation tax relief for the company, and therefore this may overall be a legitimate and more effective method of profit extraction than dividend income (we recommend you discuss this with your usual contact at Moore for clarification).

For capital gains tax purposes, it is beneficial that the room not be used solely for business purposes to protect your entitlement to full principal private residence relief for capital gains tax purposes.

Finally, if you work at home you should check with your local council in respect of business rates. In many cases the council do not apply business rates if it is just a 'home office' situation.

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