

WORKING FROM HOME



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If you've chosen to be a contractor or freelancer, the chances are that one of the reasons for doing so is for a better work/life balance. So it stands to reason that you may also want to use your new found freedom to work from home either part or all of the time.

You'll be pleased to know that working from home can be not only personally but financially rewarding to a Limited Company Contractor. Read on to find out how to get yourself set up, and what expenses you can claim.



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WORKING FROM HOME - WHERE DO YOU START?

Contracting and freelancing are fast becoming the choice career moves for more employees each year in the UK and it's evident why. Being your own boss allows more flexibility and the chance for a better work/life balance.

Choosing the jobs you want and when and where you do them is also a great perk. Some might say that they choose to work from home because a relaxed atmosphere increases productivity and efficiency, while others just like to avoid office politics. There are a whole host of benefits to home working, particularly from a health and well-being point of view.

And there are benefits from a tax point of view when you work through a Limited Company too, with certain expenses being claimable when you work from home.



Most contractors prefer a combination of remote and on-site working, to ensure some kind of visible presence, or because they enjoy the variety it brings. But for those wanting to ditch the office environment entirely, these are some things to consider:

ADVANTAGES

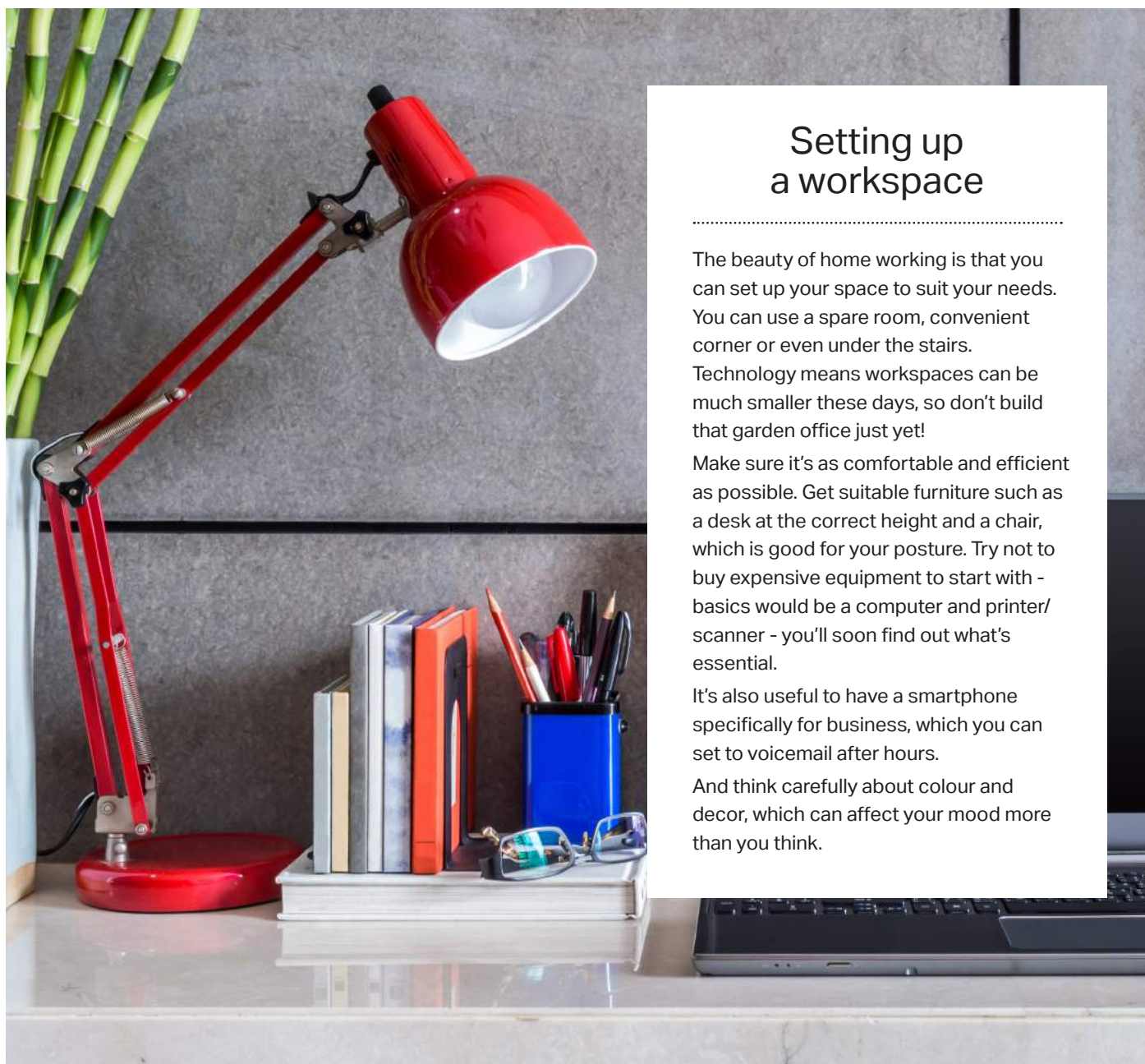
- Arranging your routine to suit you
- Freedom to spend time with friends and family
- Setting up your work space however you like
- No commuting saves time and money

DISADVANTAGES

- Difficulty in or lack of communication
- Finding it harder to switch off
- Distractions (such as housework or people who share the same building)
- Feeling isolated

Be professional about it

Communication is one of the most important aspects for making homeworking a success, so reliable broadband is a must, as is making yourself contactable and available to speak during working hours. Respond to clients promptly so they know you're on the job - they will want to make sure they're getting their money's worth after all. And don't be tempted to sit around in your dressing gown all day! Clients will expect exactly the same standards as someone who is office based, and 'getting ready' for work will put you in the right frame of mind too.



Setting up a workspace

The beauty of home working is that you can set up your space to suit your needs. You can use a spare room, convenient corner or even under the stairs. Technology means workspaces can be much smaller these days, so don't build that garden office just yet!

Make sure it's as comfortable and efficient as possible. Get suitable furniture such as a desk at the correct height and a chair, which is good for your posture. Try not to buy expensive equipment to start with - basics would be a computer and printer/ scanner - you'll soon find out what's essential.

It's also useful to have a smartphone specifically for business, which you can set to voicemail after hours.

And think carefully about colour and decor, which can affect your mood more than you think.

HOME OFFICE DEDUCTION

If you contract via a Limited Company and a room or area of your home is set aside for business use, you're likely able to claim a 'Home Office Deduction' from HMRC.

The general rule is that tax deductions for home office use only apply to expenses that are 'wholly and exclusively' for the business. However, in many cases working from home involves use of space and resources that are in private use much of the time.

The view of HMRC is that when that part of your home is being used for business, then for that period of time, it passes the 'wholly and exclusively' test. If however, that space is also being used for other non-business purposes at the same time (for example, working at the dining table while your family are eating), it does not.





HMRC RULES

- 'Home Office Deduction' likely available if you work from home
- Only for expenses that are 'wholly and exclusively' for business
- Set aside space at certain times for business use only

How is the Home Office Deduction calculated?

You can calculate your Home Office Deduction (expenses) yourself and claim the tax relief through your Limited Company. HMRC generally takes a pragmatic approach and as long as the expenses claimed are reasonable and match the kinds of expenses a business like yours would usually incur, it is likely to accept them. You just need to make sure that you're able to justify each expense if HMRC asks.

There are two acceptable methods used to calculate the Home Office Deduction: Flat Rate or Apportionment.

Flat Rate Method

This is very straightforward and doesn't require any records to be kept or evidence of expenditure. HMRC publishes flat rates each year and you can claim this if you work from home for a period each week. The current 'Home As Office' allowance from April 2018/19 is £18 a month, making an annual claim worth £208. Not much, but better than nothing!

Apportionment Method

If you want to claim any more than £18 a month, you will need to be able to provide proof of the expense, or demonstrate that you've made your calculations using a 'reasonable' method.

This is more complex as in most cases, you'll need to calculate what proportion of your household bills are used for your business. This is known as the 'Apportionment method'.

When working out how much of your household expenditure could be fairly reclaimed for business use, HMRC states: "It will normally be appropriate to apportion these expenses by area and time."

For most that means the room, or portion of the room used as a home office and the time or proportion of time that it's used for business.

To calculate your apportionment, you'd estimate the floor area of the room or part of a room, as a percentage of the total house area. For example, if a house has five rooms (excluding bathrooms), and one is used exclusively as an office, the percentage used to calculate expenses would be 20%. Then you'd estimate the amount of time spent working in your office. If it's from 8am to 2pm, that's 6 hours, or one quarter of the total time available (24hrs). So you could claim one quarter of the 20% of total costs = 5%.

So in this example, your apportionment percentage is 5%

WHAT CAN I CLAIM?

HMRC approved items

Using the apportionment method, you can claim your apportionment percentage (5% in our example), of the following HMRC approved items relating to your property:

- Heating
- Electricity
- Council Tax
- Mortgage interest or rent

Telephone and broadband

Telephone bills usually consist of a fixed line rental and variable call costs. You should apportion the fixed costs according to the proportion of calls (in and out) that you estimate are for business purposes. Call costs should be based on actual use from an itemised bill.

With broadband, a sensible split based on the users in the household and expected periods of time would be deemed reasonable.

Insurance costs

If there's a separate policy for the business, this is a legitimate business expense in its own right. Otherwise you can claim a proportion of the general household insurance using your apportionment percentage.

Other costs

Any other expense that relates to the house as a whole can also be apportioned and included in your claim, for example exterior painting of the whole property, or even garden maintenance if customers visit regularly.

However, where fixed costs are clearly for one use, business or personal, then the cost should be entirely allocated to that use. For example, if you decorate your home office (which is set aside entirely for business use) all the cost can be claimed. But decorating the lounge when this is never used for business purposes can't.

What records do you need to keep?

If you adopt the flat rate, you don't need to keep any records.

If you adopt the apportionment basis you will need to keep all your invoices and receipts as evidence. You should also keep a record of the basis of apportionment for each type of expense and the calculation you've used. Calculations can be monthly, quarterly or annually.



EXAMPLES OF HOME OFFICE DEDUCTION CLAIMS

Example 1

Working in a room solely for business use (Flat Rate Claim)

John is site based and writes up his business records at home. He uses a room solely for business for a short period each week. He estimates that £4 covers the cost of the proportion of the property costs, plus the electricity for heating and lighting.

John adopts the Flat Rate method; although the claim for £208 is obviously an estimate of £4 per week, the claim is small and reflects the facts of the case. It is arguably a reasonable estimate of the expense incurred.

Example 2

Working in a room solely for business use (Apportionment Claim)

Amit is site based and runs a small peripherals business through his company. He uses one room at home as an office, exclusively for the purposes of his trade. The room represents 5% of the floor area of the house.

His Council Tax, insurance and mortgage interest bills total £8,500. He claims 5%. His electricity bill for heating & lighting is £1,500. He claims 5%. His total claim is £500 (plus the business proportion of his phone bill).

Fixed Costs £8,500
Running Costs £1,500
Total Costs £10,000
Room is 5% of home

TOTAL CLAIM:
£500 per year

Example 3

Working in the living room during office hours (Apportionment Claim)

Christina is a technical author and uses her living room from 8am to 12pm. During the evening, from 6pm to 10pm it's used by her family. The room used represents 15% of the area of the house.

Christina's fixed costs including insurance, Council Tax and mortgage interest total £16,600. 15% of the fixed costs are £2,490 and one sixth (4/24) of total room usage is for business, so Christina claims £415.

Christina uses electricity for heating, lighting and to power her computer, which costs £2,500 per annum. She considers an apportionment of these costs first by area and then by time. 15% of the costs are £375 and half of these costs (4hrs/8hrs) relate to business use, so she claims £188.

Her itemised phone bill shows that a third of the calls made are business calls, so she can claim the cost of those calls plus a third of the standing charge.

Fixed Costs £16,600
Room is 15% of the home £2,490
4 out of 24 hours used £415

Running Costs £2,500
Room is 15% of the home £375
4 out of 8 hours used £188

TOTAL CLAIM: £603 per year

CAN I RENT A ROOM TO MY LIMITED COMPANY?

If you were to rent a room of your house to your business (for you to work in), the rent paid by the company can be deducted; however, the rent received by you personally would be subject to Income Tax (probably at rates in excess of the 20% Corporation Tax rate at which tax relief is obtained).

Some used to argue that 'rent a room' relief (where you can receive rent up to £4,250 per annum tax free) could be used, but that's long been discounted; rent a room relief does not apply to business use as an office.

There are also other financial and legal issues around whether your home can be used for commercial purposes. The local authority might object that it's not a permitted use, or they may consider that business rates (much more expensive than domestic council tax) should be applied to the part that's commercially let...

So unfortunately, renting a room to your business is not a practical option.

What about Capital Gains Tax?

It is worth bearing in mind that as long as a part of your house is not used exclusively for business purposes, then there will be no question of a capital gain when you sell your house at a future date. If part of your home is used exclusively for business purposes there may be a case for HMRC to disallow the 'Principle Private Residence Relief' on that proportion of the sale proceeds on a future sale.



Building a Garden Office

Many contractors build a dedicated office building in their garden, or extend their loft with an office conversion, and the capital cost of doing so can be met by the company.

If you personally borrow the money to fund the build or conversion, then you can claim the interest as a Home Office Deduction, or as loan interest if the loan was taken out by the company. Carpets, curtains and other fixtures and fittings are business assets, which your company can claim capital allowances for.

When you eventually sell the house, part of the proceeds would be allocated to the garden office (or loft conversion) as it belongs to the company. The company is deemed to have made a disposal of the asset and the proceeds (less the original capital cost) are a profit subject to Corporation Tax (not Capital Gains Tax).

If you stop using the space for business purposes and start using it domestically, then there's likely to be a benefit in kind charge. Alternatively, you might consider buying it outright from the company, making it part of your main residence.

Finally, don't forget to think about VAT. If you have adopted the flat rate scheme it may limit the VAT that can be recovered. So be careful if you decide to construct a dedicated office building – it is always safer to seek advice before you start.



In conclusion

If you only use a table top while your family watches TV, you are unable to claim use of home. However, If you set aside part of your home at specific times for business use, then you are able to claim.

Decide whether the weekly flat rate of £4 or the more detailed apportionment method is best for you. If it's the apportionment method, review this annually and maintain a record of costs.

Remember, if you're trying to establish whether a home office expense would be allowable for tax purposes, you need to ask yourself; Has the expense been incurred 'wholly and exclusively' for the purpose of your business?

These tips are for information purposes and are just a place to start. If you want to know more, we recommend you seek advice from a good specialist Contractor Accountant who will review your specific situation and provide you with the right advice to make sure you're claiming all the benefits you're entitled to.

HOW INTOUCH CAN HELP

If you're a Limited Company contractor, or are looking to get set up, Intouch can offer more than just an accounting service. Your specialist Personal Accountant will be there to support you and advise on everything from working from home, to tax and IR35 issues. Get in touch today for more information.



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