



# FAQ

## Tell me more about claiming for working from home?

### Can my limited company pay for an office at home?

Whilst many Directors use their home for business purposes, several tax issues can be created if your limited company pays for the costs.



**IMPORTANT** - This information is for general guidance only so we recommend you speak to us before you before you take any action so we can tailor our advice to your particular circumstances.

# Directors have several options when they work from home

## HMRC's standard homeworking rate

You could ask your limited company to pay you HMRC's standard tax-free homeworking allowance rate of £6 per week.

The amount is not significant but the main advantage of this method is that it is simple and does not require you keep extra records justifying the amount.

## Extra costs of working from home

You could ask your limited company to pay the additional costs as a result of working from home.

The only problem is that very few costs increase as a result of you working from home e.g. your council tax and mortgage interest won't increase.

Unless your circumstances are far outside the norm, in most cases, claiming the £6 per week will result in a similar enough claim and avoid the hassle of this 'extra costs' method.

## Charging your company rent for the use of your home

The general principle for employees (including directors) claiming expenses is that you can only claim additional costs incurred in carrying out your employment from your limited company. These employment tax rules prevent you claiming a fair proportion of the total costs and are quite restrictive.

However, landlords benefit from more flexible tax rules compared to employees/ directors and they can claim a fair proportion of the costs. Accordingly, you could consider setting up a rental agreement between the owners of your home and your limited company. Under this method you would need to declare the rent your company paid you on your personal tax return but allows the possibility of you claiming a fair proportion of your household expenses against the rent you receive. Your company would also get corporation tax relief on the rent payments to you.

You can't charge your company an above market rate rent for similar space but there is no minimum rent, so you could charge your company a rent equal to the expenses you can claim. You do need to be mindful that any expense element relating to mortgage interest would only count for a 20% tax credit, irrespective of your particular personal tax rate.

The other key things to remember include:

- In order to benefit from the more generous expense basis you must set up a formal written rental licence agreement with your limited company. If your home is in joint names then the licence must be too
- The costs you can claim against rent include a fair proportion of mortgage interest, council tax etc..
- Your company should not have exclusive use of any part of your home, otherwise you may find you create a capital gains tax liability when your home is sold. The space should always have an element of personal use which should be documented in the licence
- It is unlikely you will incur business rates as a result of the licence but you should confirm this with your Local Authority. It would also be best practice to confirm with your mortgage company that they have no objections

It is worth doing the calculations to see whether a rental licence method beats the basic £6 per week by enough of a margin, if at all. Directors who, for example, are mortgage free, use a small proportion of their home for their limited company or only for small amounts of time, may find the rental licence results in little benefit over the £6 per week and it's not worth the bother.

# Building an office at home such as a garden office

The potential convenience of building a separate office at home might be attractive but there are plenty of tax traps if your limited company pays for the building costs.



To demonstrate the difficulties, take an example of a director, Ralf, who owns his own home. He wants his limited company, XYZ Limited, to pay for the costs of building a garden office to operate his business from.

The garden office is being built on land that Ralf owns personally. If the garden office purchase/build costs are invoiced to the limited company, as Ralf personally owns the land the office is fixed to, there will be a taxable benefit (a deemed income for Ralf) for the full cost of the office. For example, if the cost to the company of the garden office was £10,000, Ralf would be personally taxed on the £10,000 (but any personal contribution he made to the costs would reduce the taxable amount).

There are several other challenges with XYZ Limited paying for the building and this means, unfortunately, that most Directors will be better off paying for the costs of building the home office personally.

If there are movable pieces of equipment used exclusively in the business with no private use, these can normally be paid for by the limited company without tax problems.

Ralf could pay for the garden office personally and accept there is likely to be little or no scope for getting tax relief on the initial cost, but then also enter into a rental licence on a similar basis to 'Charging your company rent for the use of your home' mentioned above. He could then apportion the ongoing expenses that are incurred personally against the rent e.g. a fair proportion of the electricity costs if the garden office is on the same electricity supply as his home.

The rent payment might result in a taxable rental profit for Ralf but compared to taking extra dividends it might be more tax efficient, as the tax rates on rental profits are normally lower than the combined corporation tax / dividend personal tax rates.



We would recommend that for any tax calculations in relation to working from home, whether you are a limited business, sole trader, self-employed or a partnership, that you take specialist advice.

For any assistance with this or any other enquiry, please do not hesitate to contact Forrester Boyd.