



CORONAVIRUS – WORKING FROM HOME

For the employed

Employers can pay their staff up to £6 per week (£26 a month) tax-free if they have asked you to work from home under “homeworking arrangements”, to cover any additional household expenses. During the pandemic it may not be an appropriate time to ask your employer for an additional payment. Prior to 6th April 2020 the tax-free allowance was £4 per week (£18 per month).

If you feel uncomfortable asking your employer for an additional payment or your employer is not willing to pay for your extra costs for working from home, you can instead claim for tax relief on the above amounts, assuming that you pay tax. A basic rate taxpayer can claim tax relief of £62 per year, whereas a higher rate tax payer can claim £125 per year.

It is expected that HMRC will accept “home working arrangements” due to the Government’s recommendation that all employees should work from home, wherever possible.

How to claim for tax relief

If you are required to complete a personal tax return each year, then you can claim the relief on your tax return.

Most employees are not required to complete a personal tax return, instead you can complete a P87 form. This can be done quite simply on HMRC’s website:

<https://www.gov.uk/guidance/claim-income-tax-relief-for-your-employment-expenses-p87>

You will be asked to set up a Government Gateway ID if this is your first time. To complete this form, you will be asked details about your employer, which you’ll be able to find on your latest payslip or P60.

A P87 form can be used for work expenses that are allowable for tax relief, which do not get fully reimbursed by your employer. In addition to claiming for “Using your home as an office”, you can also claim for other work-related expenses, such as work uniforms, tools & equipment used as part of your employment, mileage, travel & accommodation, meals, union & professional fees, etc.

The form should only be used by the employed taxpayers and not by the self-employed. A claim can also be made by post.

If your additional household expenses exceed the limits above, you can make a claim for these, however you may need to be able to provide supporting evidence to submit your claim.



For the self-employed

If you are working from home, to run your business or use a study room to keep your business finances up to date, you can make a claim for your working from home costs. There are typically two methods to choose from; either the **flat rate method**, or what we recommend and use for our clients is a proportion of their **actual costs**.

Actual Method

A proportion of the total costs of the home are allowable as a deduction against your taxable profits. You can claim a proportion of your costs for expenses such as:

- Mortgage interest or Rent
- Council Tax
- Insurance
- Utility bills (Gas, electric and water rates)
- Internet and telephone use
- Other reasonable expenses

HMRC allows you to use a reasonable method of dividing your costs, for example by the number of rooms in your house or the amount of time you spend working from home. The calculation is not as simple as it looks as you need to consider whether the costs are fixed or variable and if you have a dedicated room** used solely for business.

Knowing what you’re allowed to claim can be complicated - especially as self-employed work can vary significantly from person to person. We would therefore highly recommend you speaking to a trusted tax advisor like ourselves. We have created a piece of software which allows us to calculate the working from home charge, saving our clients potentially thousands of pounds in tax.

Client quote “I rent a 3-bed house and JHK have managed to reduce my tax bill by approximately £1,900 a year compared to my previous accountant on just calculating my use of home costs”.

Flat Rate Method

This is the most common method used by most, as it is quick and easy to calculate. The flat rate method simply asks you to look at how many hours a month you work from home, on average, and depending on this will fall into one of three categories, listed below:

- | | |
|------------------------|---------------|
| ● 25-50 hours: | £10 per month |
| ● 51-100 hours: | £18 per month |
| ● more than 100 hours: | £26 per month |

Example: If you work on average 80 hours a month from home, you will receive a tax deduction of £216 per year (£18pm x 12), which will result in a tax saving of £91 for a higher rate taxpayer. £91 is not a lot compared to the potential tax saving using the actual method.

Please don’t forget that you can also claim the business proportion of your broadband and telephone costs.



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For those trading through a limited company

Just like employees, directors of limited companies can claim £6 per week (£312 per year) for their home office expenses. Prior to 6th April 2020 the tax-free allowance was £4 per week (£208 per year).

However, you might be able to set up a rental agreement between yourself (the homeowner/occupier) and your limited company to claim a higher amount. We would highly recommend you speaking to a trusted tax advisor like ourselves. We can help write a formal agreement between both parties, to reduce the risk of HMRC classifying the rent you receive from your company as additional remuneration which may be subject to Tax and National Insurance.

When drawing up your rental agreement, we need to consider the following:

- The rent will have to be on a commercial basis (at arm's length)
- Any rent charged by you, the homeowner/occupier, would need to be included on your personal tax return as rental income. We will therefore calculate the cost of a dedicated room** to ensure that this does not create a rental income profit
- We will carry out annual reviews to ensure that the rent you receive from your business covers the costs that you incur.

This is one of the most tax efficient ways of drawing funds from your company as the company would receive Corporation Tax relief at 19%, whilst you may not have to pay personal tax on the rent received. Please see illustration below.



Simplified example

Mr A's spends £12,000 a year renting a 2-bedroom apartment, comprising of 2 bedrooms and an open planned kitchen/lounge. His household bills equates to £3,000 a year. Mr A uses his second bedroom solely for his business use and therefore the cost attributable to that room is £5,000. If Mr A were to rent an office near to his apartment, this would cost him £3,500 per annum.

Under a rental agreement, Mr A would therefore charge his company £3,500 per annum for use of his second bedroom. The company would receive a Corporation Tax deduction of £665 (£3,500 x 19%), whilst Mr A would receive £3,500 from the business tax-free. In this example, Mr A would not have a personal tax charge as the rental income he receives is less than the costs for his second bedroom.

We have simplified this example for the purposes of illustration. There is a lot more which needs to be considered before contemplating setting up such an arrangement.

** Capital Gains Tax (CGT)

If you are using a room dedicated for business purposes, this could potentially create a Capital Gains Tax liability if you were to sell your property.

Usually you do not pay Capital Gains Tax when you sell ('or dispose of') your home as you'll automatically receive a tax relief called Private Residence Relief. If any part of your home has been used **exclusively** for business purposes (**dedicated rooms), then the part of the gain attributable to that room may attract CGT at either 18%/28%.

This gain could be covered by your annual exemption of £12,300 (or £24,600 if owned by you and your spouse). A possible way to limit your exposure to CGT is ensuring that a room is not exclusively being used for a business, such as allowing your children to complete their homework in that room, or by storing a bike, children's toys, etc.

We would highly recommend speaking to a trusted tax advisor, such as ourselves before implementing any of ideas above.



Other points to consider:

- **Does working from home affect your insurance?** You may need to add additional cover to work from home. It could also reduce your premium as there will be someone at home during the day.
- **Are you driving less?** It may be worth contacting your car insurance company to reduce the number of miles and switch your policy from "commuter use" to "social use" only.
- **Have you got a train season ticket?** You could cancel your monthly/annual season ticket and get a refund for the remaining period. When you return to work, you could then buy a new season ticket.
- **Could your company offer you an interest-free loan?** A company can lend its employees/directors an interest-free loan of up to £10,000 without there being any benefit in kind consequences.
- **Can you take advantage of lower energy prices?** Energy prices have fallen significantly in the last few weeks, is it the right time to fix your bills and lock in these lower prices?

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