



Nasa Consulting Client Update – July 2008

Claiming 'use of home' expenses – clearing up the myths

In this month's newsletter we take a look at the expenses freelancers can claim for 'use of home'. HMRC never provide an actual figure that can be claimed, other than the bare minimum of £3 per week, so as guidance we have set out the issue below. We have also included some examples to assist our clients in recognising what proportion of their home costs can be claimed against the business income to reduce their year end corporate tax bill.

'Use of Home' expenses

Back in 1975, a court case (*Caillebotte v Quinn*) set out that the cost of using a room in a home can be used as a tax allowable expense if it is for business purposes. The difficult part is apportioning the amount of cost to business usage and a variety of methods can be used as long as the amount claimed is a fair proportion in comparison to the usage of the home for business.

As a minimum basis, HMRC allow £3 per week of expenses to be claimed. This is not considered by them an excessive figure as is meant to recover an element of rates, mortgage interest, heating, lighting etc that is incurred by working at home 'on the corner of the dining room table or at a desk in the bedroom'.

At the other end of the scale those people who work exclusively from home, such as architects, have a room in the house set aside purely for business and can claim a larger figure. Whilst there is no dispute on whether or not they can claim the costs, it is apportioning the bills that is tricky and can cause dispute. Often guidance is that if you have a room set aside for only business and you have a 4 bed home with a lounge, then you can claim 1/5 of household costs as trading expenses.

The only time HMRC get to see the amount claimed for use of home costs, is at the year end when the company accounts are sent to them with the corporation tax computations. If they feel the amount of the claim is reasonable they gloss over it, but if not, they may raise an inspection of the premises and disallow the tax relief!

Due to this subjectivity, they have set out some examples to us, which we have copied below. Provided you are not excessive in your claims, we will hopefully not hear from

HMRC on the issue. If you are ever in doubt we urge you to veer to the side of caution and the ultra cautious should stick to £3 per week.

Factors to take into account

The factors to be taken into account when apportioning an expense include:

- **Area** - what proportion in terms of area of the home is used for business purposes?
- **Usage** - how much is consumed? This is appropriate where there is a metered or measurable supply such as electricity, gas or water.
- **Time** - how long is it used for business purposes, as compared to any other use?

The method of apportioning an expense depends on the relative importance of each of these fixed and running costs

Types of expenses

The types of expenses subject to apportionment include the following;

- council tax
- mortgage interest
- insurance (unless there is a separate business policy, in which case the full amount can be claimed)
- water rates
- general repairs (e.g. decoration of the exterior, or roof repairs)
- rent
- cleaning
- heat and light
- metered water (unless business use is charged separately, in which case only that part is allowed)
- telephone (i.e. business calls, plus a proportion of the line rental based on the ratio of business to total use)
- internet (i.e. including broadband, apportioned on the same basis used for telephone)

HMRC Examples

- 1** A freelancer writes up her business records at home. She uses a room solely for business use for a short period each week. She estimates that £156 covers the cost of the proportion of the establishment costs, plus the electricity for heating and lighting.

Although the claim for £156 is obviously an estimate of £3 per week, the claim is

small and reflects the facts of the case. It is a reasonable estimate of the expense incurred. No enquiries are necessary.

- 2** A freelancer runs a small business. He uses one small 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 £4500. He claims 5%, £225. His electricity bill for heating & lighting is £300. He claims £15, which is 5% of the total. His total claim is £240 (plus the business proportion of his phone bill).

Although the freelancer has apportioned his electricity bill by floor area rather than usage, the amount claimed is small and there is nothing to suggest that his business use is significantly greater or lesser than his private use. It can be accepted as a reasonable estimate.

- 3** A freelancer runs a small business. He uses the spare bedroom at home as his office except for a week at Easter and a week at Christmas. All he does is to write up his records, once a week.

The house has 10 rooms. He calculates that his business expense, based on 1/10 of the total costs would be £450. He recognises that this is far too much for what he actually does at home.

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- 4** A freelancer is an author working from home. She uses her living room from 8am to 12am. During the evening, from 6pm until 10pm it is used by her family. The room used represents 10% of the area of the house.

The fixed costs including cleaning, insurance, Council Tax and mortgage interest, etc total £6600. A tenth of the fixed establishment costs is £660. For the purposes of fixed costs, one sixth ($4/24$) of the use by time is for business, so she claims £110.

She uses electricity for heating, lighting and to power her computer, which costs £1500 per annum. She considers an apportionment of these costs by time and area. A tenth of the costs are £150 and half of these costs by time ($4/8$) relate to business use, she claims £75.

She also uses the telephone to connect to the internet for research purposes. Her itemised telephone bill shows that a third of the calls made are business calls. She can claim the cost of those calls plus a third of the standing charge.

5 The facts are as in example 4.

A freelancer has some work done on the house. She has the exterior painted and at the same time has the dining room re-decorated.

What, if anything, can she claim as a deduction? The exterior painting is a general household cost. She can claim a proportion based on business use.

She does not use her dining room for business purposes. The cost of redecorating the dining room is not an allowable expense.

6 A freelance architect dedicates a room solely for use as his office between 9am and 5pm daily. The room contains a workstation, office furniture and storage for his drawings. He uses the room for an average of 4 hours each day, though often this is spread over his working 8 hour day as he has a number of regular site visits to make. In addition it is not uncommon for him to accommodate clients in his office to discuss plans, outside of normal hours.

The room is available for domestic use outside of business hours and his family regularly makes use of the room for around 2 hours each evening.

After apportioning costs by reference to the number of rooms in the house, he calculates the room uses £300 of variable costs (electric and oil) and £600 of fixed costs (council tax, mortgage interest, insurance). In apportioning these costs by the time he claims £680 in total, made up of 4/6 of variable costs (£200) and 8/10 of fixed costs (£480).

The claim equates to 75% of the total costs attributable to the room (£680/£900), which he views as a more straightforward but equally reasonable basis for future claims, should his circumstances remain unchanged.

If you would like to discuss any of the points raised in this newsletter please don't hesitate to contact your client manager as they will be happy to help.

Regards



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