



WORKING FROM HOME – IS THERE SOME TAX RELIEF ?

BACKGROUND

With COVID-19 resulting in a significant increase in employees '**Working from Home**' (WFH)

- whether as a result of Government mandated '**lockdowns**', or
- as Employers encourage working from home more widely with their own employees during this period

the ability to obtain some additional '**tax free**' reimbursement from an Employer, or some form of tax relief from the Government towards the additional costs of '**Working from Home**' is a topical question for many employees !

In it's simplest form, an employee has the following options for '**tax free**' payments or claims :

- **Payment from your Employer** : you can receive a **flat rate** of up to £6 per week or £26 per month '**tax free**' and without having to keep any records

OR

- **Claim 'tax relief' from HMRC** – you can apply for '**tax relief**' on a **flat rate** of costs of £6 per week or £26 per month and again without having to keep any records

An alternative option is

- where you have a more complex situation, or have incurred specific costs to be able to '**work from home**', then you may be able to obtain different amounts on a tax free basis
- **HOWEVER** this will require detailed records to be kept by the employee to be able to demonstrate that there is **NO** profit element involved.

PLEASE NOTE – the WFH allowance, whether for Employer payments or claims made to HMRC are **NOT** available if the employee **CHOOSES** to '**Work from Home**' !

EMPLOYER PAYMENTS FOR WFH (FLAT RATE)

HMRC allows for an Employer to pay an employee up to £6 per week (£26 per month), which will be '**free of tax**' and '**free of NICs**', but only when there are some type of '**formal**' arrangements between the Employer and employee, under which the employee regularly performs some or all of their employment duties from home.

The purpose of the allowance is to cover the extra '**day to day**' costs of running the employee's home due to the additional time spent due to their employment duties e.g. light and heat etc.

The main advantage for using this approach and the '**flat rate**' is that the employee is not required to keep any records at all in respect of these payments.

EMPLOYEE CLAIMS FOR WFH TAX RELIEF (FLAT RATE)

Where no payment is made by an Employer to an employee, then the employee can make a claim for **'tax relief'** directly with HMRC in respect of their additional **'work from home'** costs.

On a similar basis as for payments received from an Employer, there must be some type of **'formal'** arrangements between the Employer and employee, under which the employee regularly performs some or all of their employment duties from home.

From 6 April 2020, the amount of tax relief available to an employee will be £6 per week or £26 per month.

To make the claim for **'tax relief'** from HMRC, the process for an employee is as follows:

- Go to [GOV.UK](https://www.gov.uk)
- Search **'Claim tax relief for your job expenses'**.
- Follow the steps and answer the various question on your **'Working from Home'** arrangements

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Are you only claiming tax relief on your expenses for working from home?

Yes

No, I also want to claim tax relief for other types of job expenses

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- Once the process is completed, most employees will receive the allowance through an adjustment to their annual tax code



NON FLAT RATE PAYMENTS AND CLAIMS

There may be circumstances where an Employer may need to reimburse an employee at amounts in excess of the **'flat rate'** WFH allowance i.e. for **'actual'** costs incurred on **'Working from Home'**.

In this case, where the Employer makes the larger payment to reimburse an employee for **'actual'** costs, these can be **'free of tax'** and **'free of NICs'**, **BUT only** where the employee keeps adequate and detailed records to demonstrate that there is no **profit element** in the payment being made to the employee.

These records will only be adequate where they include detail such as -

- based on a 'sampling exercise'
- by calculation of the employee's costs **BEFORE** and **AFTER** the **'working from home'** arrangements or
- based on information showing the employee's **actual expenditure** (due to the WFH requirement)

As in all circumstances, there must be some type of **'formal'** arrangements between the Employer and employee, under which the employee regularly performs some or all of their employment duties from home.



EXAMPLES OF DEDUCTIBILITY OF OTHER RELATED 'WORK FROM HOME' COSTS

1. Equipment (generally relates to IT related equipment)

Where an Employer provides an employee with the necessary equipment or services to be able to 'work from home' (but no money or other payments towards costs) under agreed 'working from home' arrangements, there is no tax or NICs charge where :

- any **private use** by the employee or members of their family etc. is not significant
- the sole purpose is to enable the employee to perform their duties and doesn't include such items such as
 - a motor vehicle, boat or aircraft;
 - the extension, conversion of the property
- the equipment remains the Employer's property and is returned to the employer in due course. **If it is given to the employee**, whether at the end of the employment etc., then it will be a taxable benefit at that point.

PLEASE NOTE - From 16 March 2020 to 5 April 2021 **ONLY** - where an Employer reimburses an employee in respect of expenditure on equipment specifically to enable homeworking as a result of coronavirus, the reimbursement will be free of tax and NICs.

2. Mobile phone (Employer contract)

Where an Employer provides an employee with a single mobile phone (both handset and service contract) for business purposes, then there will be no tax or NICs charge in the following circumstances

- Where the contract is between the Employer and the phone provider
- irrespective of the amount of personal use or where there is no business use at all.

3. Mobile phone (Employee contract)

Where an Employer reimburses the mobile phone costs of an employee where the employee has the contract with the provider, then it will only be '**free of tax**' and '**free of NICs**' if it is **ONLY** the actual costs of the employee's business calls on that mobile phone.

Where the **full costs** of the contract are reimbursed by the Employer, then this will NOT be tax free as there may be personal calls on that mobile i.e. some private use of an employee's personal mobile settled by an Employer is a **taxable benefit** !

4. Home alterations etc. for 'homeworking'

There is **NO** deduction or allowance available for an employee who incurs expenditure on building a home office, whether as a free-standing structure, a loft conversion or a house extension.

Where an Employer funds alterations or improvements to an **employee's home**, the employee will be deemed to have received a **taxable benefit - to the value of their employer's expenditure**.



5. A Garden office

Although the use of garden offices as part of '**Working from Home**' arrangements is becoming more common, there are again quite specific rules around the taxable nature of these costs.

However in general terms - where an Employer pays for the costs of construction of such offices on land owned by the employee, this is an **improvement to the individual's property**, and therefore a taxable benefit for the employee - **for the full cost of construction**.

6. Capital gains tax and Property

There are some circumstances where

- when an employee's property (or part of their property), is used partly as a workplace, and
- therefore not only as a home
- it may result in the capital gains tax (CGT) relief on the sale of a private residence being affected.

However in general terms - where a room is used **partly for business** purposes and **partly for residential** purposes, or is used as part of '**Working from Home**' arrangements with an Employer, this will **NOT** have any impact on the entitlement to this CGT private residence relief.

NOTE - Where there are more complex situations in terms of an 'office' or working space at home, use of formal leases with Employers/businesses etc., then specific tax advice should be sought to ensure that any CGT issues can be addressed properly !

Contact the Sakura Team if you have any queries on 'Working from Home' arrangements, tax relief or practical issues on 0207 952 1230 or clientservices@sakurabusiness.co.uk