WORKING FROM HOME?

MAKE SURE YOU CLAIM THESE EXPENSES

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CERTIFIED ACCOUNTANTS

You're entitled to include part of the running costs of your home in your accounts, as a self-employed individual which will save you some tax. Here's how to work out how much you can claim.

TWO METHODS FOR CALCULATING BUSINESS USE OF HOME

If your business is eligible to use the simplified accounting method, you have a couple of options for working out how much to claim for business use of the home.

The Flat Rate Method

The flat rate method asks you to look at how many hours a month you spend running your business at home, on average, and include a fixed amount in your accounts for business use of your house.

The amount varies with the number of hours per month you work at home, as follows:

- 25-50 hours: £10 per month
- 51-100 hours: £18 per month
- 101 hours or more: £26 per month

Using this method will certainly be quicker than working out your actual costs. However, the figure might not be as high meaning that you could save time but pay more tax. It's also important to note that the flat rate method covers only costs for heat, light and power - you will still need to work out how much you can claim for your other expenses, such as rent, council tax, and telephone and broadband.

Analysing the Costs Method

If you want to claim part of the actual running costs of your home in your business accounts, then how much you can claim depends on the type of business you have and what work you do at home.

For example, if you're a freelance decorator, you might spend an hour or two a week writing up your books at home, but spend the rest of your working life at your customers' properties. But if you're a self-employed PR consultant or web designer, you may well do the vast majority of your work at home and only occasionally visit clients.

HMRC says that you need to apportion the running costs of your home on a "fair and reasonable" basis between the private element of that cost - the part that relates to you living there - and the business element. But how do you do this?

One method is to work out how many rooms you have in your home and identify how many of those rooms you use for business - and also calculate how much time you use these rooms for business.

Remember that it's not a good idea to use any part of your home solely for business activities all the time and never use it for any private activities, because capital gains tax will then be due on the part you use just for business if, and when, you sell your home. Instead, try to make sure that your workspace serves a dual purpose. For example, use an office at home as a music room as well - you could prove that to a visiting HMRC inspector by having a piano in there.

Say there are ten rooms in your home. You only use one for business, and 90% of the use of that room is for business. You would add up all the costs that you can claim and multiply that by 1/10 and then by 90%, to get the accounts figure for the business use of your home.

BUT WHAT RUNNING COSTS IN MY HOME CAN YOU ACTUALLY INCLUDE IN MY ACCOUNTS?

Here are some of the costs you might incur to run a home, which you may then be able to claim part of in your business accounts.

Mortgage

You can claim a proportion of the interest-only - not the capital repayment.

Rent

You can't charge your business rent when you're self-employed, because legally you are the business. But if you're renting your home from a landlord, then you can claim a proportion of the rent for your business.

Council Tax

You can claim a proportion of your council tax cost. However, depending on how much you use your home for business, you may have to pay business rates rather than council tax.

Light and Heat

You can claim the business proportion of your gas and electricity costs for lighting and heating in the room(s) you use for business.

Telephone and Broadband

Remember what you can claim for your telephone and broadband is not apportioned based on the number of rooms in your home, but on what your actual usage of the line is. See our expenses guide.

Property Repairs

If a property repair relates solely to the part that's used for business, you would include this cost in your accounts in full, subject to the business use of that room.

So for example, if the ceiling in your office/music room is repaired for £200, you wouldn't need to divide that by ten because the repair was only for that room – you would multiply by 90%, and include that amount (90% x 200 = £180) in your accounts.

If the repair is to the whole house, for example, a repair to the roof, you can include that in the same proportion as you would the rent or council tax – so in the case above of your 10-room house, the repair cost x 1/10 x 90%.

If the repair is just for a part of the house that's not used for business - such as replastering of a kitchen - then you can't claim any part of that repair in your business accounts.

Water

If you use a lot of your home water supply for business - for example, if you run a car valeting service - then you would need to apply to the water company for this to be separately charged, and you could claim the full cost.

But if your water use for your work is only minor, you can't claim any of the cost for your business.

Claiming the costs of working at home is not as simple as it initially sounds. If you're in any doubt as to what you can claim, you should seek further advice from us.

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