



## Beginner's guide to *working from home* claims for Company Directors

### Overview

It looks like 'working from home' is here to stay, whether that is fully at home or a hybrid combined with office-based working. In 2020 when working from home was no longer a choice but a necessity HMRC had a rethink on some of the rules to ensure that employees and directors were not taxed on the support employers provided to allow their employees to work in a covid-secure way. Specialist Accounting Solutions has put together this information primer to help you understand how to claim costs for company directors.

There are three types of claim available to directors of companies in the UK, detailed below.

### 1 - Flat rate claim – £6 per week

If you use your home as a working base, HMRC allows payments by the company of £6 per week as "additional household expenses" to be paid tax free.

If the company does not pay the allowance then the director can claim the deduction on their own tax return. However, it's important to remember that it is not enough for the expense to just be relevant to the employment or be incurred in connection with the work - it must be 'wholly, exclusively and necessarily' incurred for work. The additional word "necessarily", makes this a tougher test than that for the self-employed.

Furthermore, the main duties for work must be carried on at the home and require specific facilities; not available at a work premises or the work means that it would be unreasonable to travel to the office (for example a sales director who rarely goes into the work premises).

As a result of more employees having to isolate and work from home since 2020, HMRC changed their approach in May 2020 so that employees can claim up to £6 a week without needing to substantiate the figures.

### 2 - Higher claim for actual costs

If £6 a week does not sound anyway near what you think it is costing you, HMRC will allow a higher claim so long as the amount has been calculated on a reasonable basis, and that such claims are not excessive.

So how do you calculate the right amount? One suggested method is to estimate the proportion of the home used for business purposes (either as a fraction of the total number of rooms or by floor space – excluding bathrooms, kitchen and hallways). With this calculation you can claim back the proportion of general household expenses which can be based on previous years bills (electricity, gas, council tax, rent/mortgage interest – but not the capital repayment made).

Depending upon the size of the property and mortgage, these pro-rata costs will (most likely) result in a higher claim than that allowed under the more basic £6 per week claim. Evidence will be required to justify these alternative claims.

### 3 - Company paying rent

The third method is where the director can withdraw tax-free money from the company for the rent of a room in their home as the company office. The room need not have exclusive use as an office, so long as when it is used, it is used for business purposes.

#### What the company does is...

The company pays rent for the use of the room, which equates to the expenses claimed by the director. The company will claim full corporation tax relief.

#### What the director does is...

The rent is received and declared as taxable income by the director. The director in turn deducts the same amount of expenses, which means no profits and no income tax liability.

The director and the company are also not liable for any NIC payable on this expense.

#### The devil is in the detail

Claiming company rent will involve quite a bit of calculation to work out pro-rata and square footage etc. for limited actual saving in taxes so discuss with your accountant how best to approach this calculation.

Payments for rent can be paid on a monthly, quarterly or annual basis and it is recommended that there is a written rental agreement between the owner/occupier and the business with details of the length of tenancy for the 'non-exclusive use' of the room as an office. Evidence of payment made from the bank account of the business to the personal current account is advisable rather than a director's loan account (DLA) to clarify the difference between company and personal money.

If a room is used solely for business purposes, it could cause a restriction on Capital Gains Tax Principal Private Residence relief at the point of a house sale, so it is best to make sure that the room includes some personal items to provide evidence of other use.

Be aware, the amount paid for rent should not be larger than a commercial rent. Discuss with your accountant the details around possible profit to extract through any remaining (if available) through personal and dividend allowances.

## How can Specialist Accounting Solutions assist with your tax claims?

**Please get in touch if you want an initial free no-obligation consultation to see how we can support your business.**

**Sean Hackemann (FCA)**

**Email [sean@teamsas.co.uk](mailto:sean@teamsas.co.uk) or call 0118 911 3777, direct mobile 0797 108 5773.**

A guide to working from home claims for employees is also available, email [marketing@teamsas.co.uk](mailto:marketing@teamsas.co.uk) for details.

*Disclaimer: The document is provided as a guide only and we recommend seeking professional accounting advice before making decisions. Use of this guide is for reference only. Specialist Accounting Solutions Ltd accepts no liability for any errors therein or any losses or damages arising from it.*

