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DVM

D V Marlow & Co
Chartered Accountants & Tax Advisors

FACTSHEET

HOMWORKING & TAX RELIEF FOR EMPLOYEES

Tax considerations for
employees working at home

HOMWORKING - EMPLOYEES

With the worldwide pandemic, many of your employees may be currently working from home. With the improvements in technology and communications, this is a trend that is likely to continue.

So, how have the tax rules kept up with these changes? This factsheet helps you consider the position for your employees.

Your status is important

The tax rules differ considerably depending on whether you are self-employed, as a sole trader or partner, or whether you are an employee, even if that is as an employee of your own company. One way or the other though, if you want to maximise the tax position, it is essential to keep good records. If not, HMRC may seek to rectify the tax position several years down the line. This can lead to unexpected bills including several years' worth of tax, interest and penalties.

General rules

Generally, any costs paid on behalf of, or reimbursed to, an employee by their employer will be taxable. The employee will then have to claim the personal tax relief themselves and prove that they incurred those costs 'wholly, exclusively and necessarily' in carrying out their job. The word 'necessarily' creates a much tighter test than that for the self-employed.

In addition, the way in which the services are provided can sometimes make a substantial difference to that tax cost. For example, if the employer provides something for the employee, the rules are often much more generous than if the employee bought it themselves and attempted to claim the tax relief. A bit of advice and forward planning can often prove to be fruitful.

An exemption

The rules for employees in relation to 'use of home as office' contains a specific exemption from a tax charge. They allow payments made by employers to employees for additional household expenses to be tax free, where the employee incurs those costs in carrying out the duties of the employment under homeworking arrangements.

The arrangements do not need to be in writing but it is advisable to do this, as the exemption does not apply where an employee works at home informally.

Where these rules are met, the additional costs of heating and lighting the work area and the metered cost of increased water usage can be met. There might also be increased charges for internet access, home contents insurance or business telephone calls and where working at home leads to a liability for business rates. HMRC accept that the additional cost incurred can also be included.

However, unlike the self-employed, HMRC do not accept that a proportion of household fixed costs such as mortgage interest, rent, council tax or water rates are allowable. HMRC accept that a £6 per week payment from the employer from 6 April 2020 (previously £4) is acceptable without too much formality if the above tests are met. However, to justify a higher payment, the message is: prove it!

Tax relief

The above rules only allow tax free payments to be made in specific circumstances. However, if payments are made outside of these rules or, in fact, no payments are made at all, the employee can claim personal tax relief themselves if they can prove that they incurred those costs or received those payments 'wholly, exclusively and necessarily' for the purposes of their job. In reality this is extremely difficult – some would say impossible – as HMRC require the following tests to be met:

- The employee performs the substantive duties of their job from home (i.e. the central duties of the job)
- Those duties cannot be performed without the use of appropriate facilities
- No such facilities are available to the employee on the employer's premises or are too far away
- And at no time either before or after the employment contract is drawn up is the employee able to choose between working at the employer's premises or elsewhere.

So the moral for employees is to go for tax free payments, not tax relief!

Equipment costs

Capital allowances will be available to the company for the costs of providing equipment to employees who work at home. Provided that the private use of those assets by the employee is insignificant, then there will be no taxable benefit on the employee. Again, this could apply to things such as a laptop, desk or chair, provided that the employer has a written policy making it clear that the provision of the equipment is for work-related purposes.

Even if that condition is met, the cost of travel between the employee's home and another permanent workplace is only deductible during those times when the home is a place of work.

Of course, employees who work at home are entitled to a deduction for the expenses of travelling to a temporary workplace – that is anything which is not a permanent workplace. It is as clear as that!

Travel costs

The rules are so 'simple' that HMRC explain them in a convenient 77 page booklet, IR490! However, the main point to note is that although an employee's home may be treated as a workplace for tax purposes, this is not enough, on its own, to allow the employee to get tax relief for the expenses of travelling to another permanent workplace.

Employees are able to claim tax relief on the full travelling cost incurred in the performance of their duties. However, no relief is available for the costs of ordinary commuting or private travel.

The rules are complex but ordinary commuting is defined as travel between the employee's home and a place which is a 'permanent workplace'. A 'permanent workplace' includes places where there is a period of continuous work lasting more than 24 months or the period of attendance is all or most of the period of employment.

HMRC state that, for most people, the place where they live is a matter of personal choice, so the expense of travelling from home to any permanent workplace is a consequence of that personal choice. As a result, such travelling expenses will not qualify unless the location of the employee's home is itself dictated by the requirements of the job.

Be reasonable

As you can see, all things are possible but the key is to be clear about the rules, keep good records and be sensible about how much to claim.

How can we help?

Whilst some generalisation can be made about homeworking and employees, it is always necessary to tailor the advice to fit your situation.

If you would like any help or advice about homeworking and tax relief for employees, please do contact us at D V Marlow. We can also provide key services such as bookkeeping, management accounts, VAT return and payroll preparation at an early stage.

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