Homeworking and Tax Relief for Employees

Working from home may be an attractive option for some employees. Here we consider the tax implications of homeworking arrangements.

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.

This factsheet considers the position for employees.

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. 'Homeworking arrangements' means arrangements between the employee and the employer under which the employee regularly performs some or all of the duties of the employment at home.

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 accepts that the additional cost incurred can also be included.

However, unlike the self-employed, HMRC does not accept that a proportion of household fixed costs such as mortgage interest, rent, council tax or water rates are allowable.

A simpler flat rate method is available to cover additional costs. The rate is £6 a week from 6 April 2020. No records are required to be kept. 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 requires 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!

Temporary COVID-19 exemption

A temporary exemption was introduced to support employees who were working from home as a result of the COVID-19 pandemic and needed to purchase home office equipment. The exemption covered the position where an employer reimbursed an employee who had bought home office equipment: a table, chair or monitor, for example. Normally, reimbursement after an employee purchases would be taxable. But for 202/21 and 2021/22, a temporary exemption from income tax and national insurance existed, so long as:

- equipment was obtained solely to enable the employee to work from home because of the pandemic
- it would have been exempt from income tax if provided directly to the employee by the employer
- such arrangements are available to all employees generally on similar terms.

Care will be needed regarding current and future ownership of the equipment. We are happy to advise further.

Equipment costs

Capital allowances will be available to the business 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.

Travel costs

The rules are so 'simple' that HMRC explains them in 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's guidance states 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.

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!

Example

Jane's duties often involve her working late into the evenings and she has no access to her employer's premises (her permanent workplace) at night, so she takes work home with her. As it is a matter of personal choice where the work is done (there is no objective requirement that it is done at her home), any travel to or from her home cannot be said to be in the performance of her duties and no relief is available for any costs.

However, Jane's husband is an area sales manager who lives in Leicester. He manages his company's sales team in the Midlands and the company's nearest office is in Newcastle. He is therefore obliged to carry out all his administrative work at home, where he has set aside a room as an office. He is entitled to relief for the expenses of travelling to the company's office in Newcastle, as well as for journeys within the Midlands as these should all qualify as temporary workplaces.

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 we can help

If you would like any help about obtaining tax relief on the costs of homeworking, please do contact us.

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