

Contractors with home offices to benefit from new HMRC expenses guidelines

Additional home office expenses – including [mortgage interest](#), [council tax](#) and home insurance – can now be claimed against tax, according to just-released [guidelines from HMRC](#). Contractors have always had the choice of deducting a range of home expenses from their overall tax bills, but there has been the very real danger of the taxman wanting a proportionate share, through Capital Gains Tax, when the contractor's home was sold.

'Fixed costs' now qualify

But the new guidance means that many contractors will now be able to [claim a proportion of their fixed costs](#) against their income from contracting. Such fixed costs will include:

- o Insurance – if there is no separate business policy, a proportion of the household policy can be allowed
- o Council tax – a proportion of the total bill can be claimed. [See [more info](#)]
- o Mortgage interest – A proportion of the mortgage interest is allowable, but capital repayments are excluded [see [more info](#)]
- o Rent – A proportion of the rent of a home is allowable if a part of the property qualifies as being used for business purposes
- o Repairs and maintenance – A proportion of the total cost of general repairs and maintenance can be claimed; this would include roof repairs, for example, but not decorating a room that is not used for business purposes. [See [more info](#)]

Reasonable criteria must be met

HMRC will allow contractors to claim a proportion of these costs against the contractor's income if the right criteria are met. These include:

- o If an area of the home is used exclusively for business purposes and is in use during specific hours of the day. And the room used must look like an office, so have for example, a PC workstation, desk, chair and filing cabinets. Using a laptop at the kitchen table won't qualify
- o A reasonable claim relating to the business. The time spent should be realistic, for example from nine in the morning until five thirty in the evening. Also, the area used should not be a disproportionately large area of the domestic living space.

Assuming a contractor meets these requirements, then a percentage of the total running cost of the home can be claimed.

'Each case dependent on the facts'

Once again, HMRC have fudged the issue slightly by saying that "...each case will be dependent on the facts". So, as with all [contracting expenses](#), contractors should claim with caution.

HMRC says that it would investigate if a contractor were to make disproportionate claims for expenses, for example if the percentage area of the house described as being used for business purposes was very high.

The rules only apply to contractors who are working from home for at least some of the time. If a contractor spends all their time on site with clients, then either the guidelines won't apply or only a very small claim could be made.

“ Each case will be dependent on the facts ”

HMRC Guidelines

Pleasant surprise

HMRC has provided several [case studies](#) of how the new guidelines will work and, whilst the sums given in their examples are small, contractors who make their own calculations using real figures may be in for a pleasant surprise.

Properties having mortgages with large interest payments could be looking at savings of many hundreds of pounds by claiming this fixed cost alone.

These new guidelines are a step in the right direction, recognising that contractors and freelancers have a legitimate place in the UK's workforce, and that having a home office is a fundamental component of the way they work

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