

What expenses can contractors claim for using a home office?

If a contractor conducts fee-earning work at home, then it is possible to claim a percentage of some household bills as business expenses. Claiming expenses can over time significantly reduce a contractor's tax bill and personal outgoings.

So, how do you actually save money? It works like this – if you're paying £100 a month on utility bills to cover the times when you're working from home, that £100 is a legitimate business expense. Therefore, the £100 of your earnings that you use to pay the bill is income that does not get taxed. This saves you a lot of money compared to paying that £100 out of your net take-home pay, after tax. That's because you have to earn about £165 in the first place to get £100, as the taxman takes the rest.

However, as with all matters relating to expenses and taxation, it is important to establish the facts and [keep detailed records](#) to substantiate any claims.

Floor area

Underpinning any claims for household expenses is the floor area used for business purposes. In other words, the percentage of your home that you use when working on your contracting business from home.

With some contractors this could include workshop space in a garage or shed, but for most it means the room, or portion of the room, used as a home office.

[HMRC's guidance](#) provides examples of how to calculate the floor area. It suggests estimating the floor area of the room, or part of a room, as a percentage of the total house area. For example, if a house has four rooms, excluding bathrooms, and one is used exclusively as an office, the percentage used to calculate expenses would be 25%.

Then the contractor should estimate the amount of time spent working in the office. If the office is used from eight in the morning until midday, that is four hours, or one sixth of the total time.

In order to calculate what can be claimed, if 25% of the house floor area is used as an office for one sixth of the time, then any costs claimed should be one sixth of 25% of the total costs.

Allowable costs

Recent changes to HMRC rules means that an increased percentage of household costs can be claimed as expenses. A percentage of utility bills has always been allowed, but now contractors can add additional fixed costs, such as [mortgage interest](#) and [council tax](#) payments.

After calculating the floor area, the next task is to tot up the household bills, including:

- o Gas and electricity, or heating oil and other energy costs
- o Water and waste water
- o Telephone calls solely for business from an itemised bill, if the office does not have a dedicated business line
- o Mortgage interest, but not capital repayments
- o Council tax
- o Cleaning.

Add these costs together and then apply the estimated percentage of the house used for business purposes. HMRC's website has numerous examples of how the calculation is applied.

Repairs and maintenance

In addition to the utility, mortgage and council tax costs, contractors can also claim for money spent on their homes' [repairs and maintenance](#). Care must be taken, however, in making such claims, as significant improvements might qualify for capital gains tax when the house is sold.

If, for example, the house has its roof repaired or the external paintwork done, then a percentage of these costs can be claimed. The percentage used should be that calculated for the floor area.

However, specific repairs or decoration to a part of the house that is never used for business cannot be claimed, nor can a percentage

be claimed.

'Reasonable' and 'Realistic'

According to HMRC, there are some key issues to consider when claiming for household costs. The room in the house that the contractor claims is an office must look like an office.

It should have, for example, a workstation, a filing cabinet, a desk and chair and other evidence that the room is used for business purposes, like key reference books. There may also be a dedicated business telephone line into the office.

When calculating the time spent in the office, it also pays to be sensible in order to avoid an investigation. Contractors who claim for 20 hours a day 7 days a week in order to hike their tax deductions are likely to raise a few eyebrows at HMRC.

According to the [guidance published by HMRC](#), reasonable and realistic claims by contractors will not be investigated.

Taking the time to calculate what household costs you can claim as deductible business expenses is a worthwhile exercise. If you work from home most of the time the figures will mount up and potentially save you thousands of pounds in tax during the course of a year.

Published: Monday, July 14, 2008

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