

Contractors can take reasonable home business deductions

Recently, HM Revenue & Customs made it easier for contractors to take deductions on [expenses](#) related to running an office at home. The [Business Information Manual section 37600](#) which deals with this subject was updated at the end of December, 2006—must have been the Revenue's quiet Christmas present.

"If you really use part of your home for business then you can take a good deal of home-business expenses off your taxes; you don't have to use your entire home just for business, just part of it" explains David Colom, a principal at the London-based accounting firm [D J Colom](#) which specialises in contractor affairs. "Just dedicate a single room to your business, and actually use it to do your business during most regular business hours (as opposed to using it once in a while to read a spreadsheet). The Revenue will accept all of the business-related expenses that stem from that usage."

Costs May Vary

As Colom points out, costs may vary. "A room in a house in Knightsbridge in London will obviously cost more to maintain than one in East Anglia." Nor is that something the Revenue will have any difficulty understanding.

What the courts have ruled is that using a home part of the time for business is just like using a car part of the time, and apportioning expenses for it shouldn't be much different. For example, if you only have a one-room apartment, calculate the floor space you use for the business and determine what percentage that is of the whole.

Be Reasonable

But be reasonable: don't claim that your hobby making jewellery at home is a business use when you make your living as an IT contractor. "A common sense approach is best here," Colom adds.

According to the manual, expenses of running a home-based business are broadly divided into two categories - running costs and fixed costs.

The factors to be taken into account, according to the BIM section, when apportioning an expense include: Area: what proportion in terms of area of the home is used for business purposes? Usage: how much is consumed? This is appropriate where there is a metered or measurable supply such as electricity, gas or water? Time: how long is it used for business.

Telephone Charges Too

Telephone charges and line rental on a domestic phone, a proportion of exterior house repairs, even a proportion of your home cleaning bill are permitted deductions. Also an appropriate portion of mortgage and rental payments.

Here is an example from the Manual. Bill runs a small business. He uses one small room at home as an office, exclusively for the purposes of his trade (CG64660). The room represents 5% of the floor area of the house. His Council Tax, insurance and mortgage interest bills total £4500. He claims 5%, £225. His electricity bill for heating & lighting is £300. He claims £15, which is 5% of the total. His total claim is £240 (plus the business proportion of his phone bill).

Although Bill has apportioned his electricity bill by floor area rather than usage, the amount claimed is small and there is nothing to suggest that his business use is significantly greater or lesser than his private use. It can be accepted as a reasonable estimate.

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David Colom

Principal

D J Colom & Co Chartered Accountants

David Colom qualified as a Chartered Accountant in the City of London in 1981 and is the founder and principal of D J Colom & Co Chartered Accountants established in 1989.

Started specialising in serving IT contractors in 1993 and is now one of the longest standing suppliers of accountancy services to computer contractors.

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As Colom points out, these manuals are only used for the Revenue's interpretation; you cannot rely on them in court. Still the change to the manuals does indicate that the HMRC will take a broader line with home expense deductions in the future.

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