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Creating or Building a Home Office

A Maitland Guide for: Limited Companies

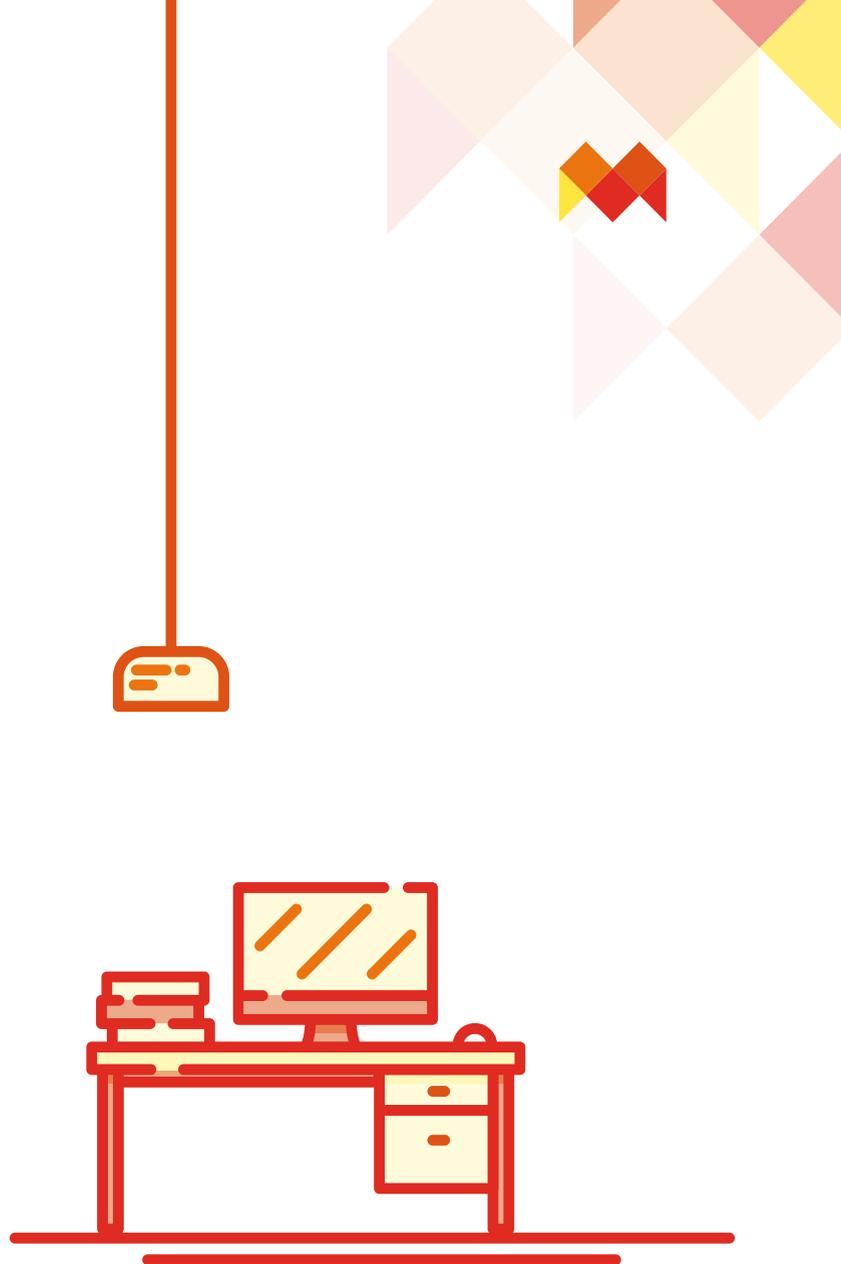
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Creating or Building a Home Office

As a director of your limited company, working from home can mean considerable savings on office rental costs and commuting. Rather than working at the kitchen table, converting a spare room or building a garden office is an ideal way to create a dedicated workspace that keeps 'home' and 'work' separate.

The tax implications of building and running a home office can vary, depending on your unique circumstances. There is no 'fits all' solution so, instead, this guide gives you an overview of what to consider.

For more advice, please don't hesitate to contact the team here at Maitland on 01825 748308.



Who should pay – you or the company?

Deciding who should pay the initial costs depends on several factors, including how you plan to use your workspace, whether it will have a personal-use element, and whether or not you are VAT registered as an individual.

If you (the company director) pays

When paying for building or conversion works from your own pocket, there are several different aspects to consider:

> VAT

To reclaim VAT on your expenses, **you need to be VAT registered as an individual**. If you register after you've paid for your new office, you can still backdate your claim for the previous four years.

> Stamp Duty (SDLT)

Paid by the buyer, SDLT **applies when you sell your property**. If part of your home is not suitable for residential use (decided on a case-by-case basis), 'mixed-use' rather than 'residential' SDLT may apply.

> Capital Allowances

You can **claim capital allowances for the cost of fixtures and machinery** paid for during building or conversion work. PAYE and NICs also need to be considered, so it's often better for the company to pay for fixtures, plant hire and machinery directly.

> Repairs & Renewals

Repair costs can usually be **reclaimed from the company as a 'home working expense'** (see our [Working from Home Guide](#)). However, if the expense isn't 'wholly and exclusively' for business use, you can only claim a portion of the costs.



Charging your Company Rent

As a homeowner, you may be able to charge your company rent for the office space it uses in your home.

To do this, you need to:

1. Draw up an official Licence Agreement with clear terms
2. Set a rate that reflects current market values and covers a portion of your mortgage, council tax and running costs.

Drawing-up a Licence Agreement

This outlines the basic terms for renting part of your home to the company on a short-term basis.

Your agreement should include:

- > Names of the Licensor and Licensee
- > Office size and parties involved
- > Services included (light, heat etc)
- > Hours it's used for per day / week
- > Amount of rent to be charged
- > Any specific terms of the agreement

! Remember to check that your mortgage and insurance providers allow business use under your current terms.





If the company pays

Your company can either pay directly for building/conversion works, or it can reimburse you as the director. If you choose this option, you should consider:

> VAT

VAT can usually be reclaimed on the cost of business assets, including plant and machinery used to build/create your home office.

> **It may be possible to reclaim VAT on the cost of converting part of your home**, providing you have a Licence Agreement and that there is no significant personal use of the office room/building.

> Capital Allowances

The company can claim capital allowances on the cost of the machinery used to create your home office or outbuilding.

The company may be able to claim capital allowances on the cost of fixtures but it can be difficult to prove that there is no personal element for things that are attached to your property, like sinks and plumbing.

> PAYE and NICs

- **For any building intended exclusively for business use**, the company pays tax on the building costs but there is no on-going charge for services.
- **Personal bills paid for by the company** are subject to PAYE and Class 1 NICs. This includes things like household heating and lighting bills.
- **Company assets made available for personal use** are classed as 'benefits-in-kind' and are taxed at 20% of the overall annual cost.
- **For company assets that are intended for personal and business use**, the company pays a one-off tax, minus any amount made good by you (the director). On-going expenses, such as heating, are taxed annually as a benefit-in-kind.



> Repairs & Renewals

The company can claim repair and renewal costs (and associated VAT) for a building it occupies, provided the repairs are carried out 'wholly and exclusively' for the benefit of the company.

Is there a dual purpose?

You or the company can only claim tax relief on expenses that are exclusively for business purposes.

Extra tax is due for assets or expenses that also have a personal element.

This could include:

- > An office that doubles as a bedroom
- > Office upgrades that add value to your home
- > Fixtures that are attached to your property and used personally

Working from your new office

When working from your new office, you can claim your everyday running costs through the company.

You can claim for things like:

- ✓ Office lighting and heating
- ✓ Stationary & equipment
- ✓ Business calls & internet
- ✓ Insurance & repairs

For more details, see our [Working from Home Guide](#)



Need help?

For expert advice on creating your home office, speak to our team on 01825 748308

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