

# Claiming home office expenses

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Claiming deductions for home office expenses has traditionally been the province of sole traders who used a home office for some or part of the time. Now, many more businesses have employees working full or part-time from home. And so, Inland Revenue also released guidance for companies on claiming home office expenses.

## Sole traders

Where sole traders use their home partly to conduct business activities, they are entitled to a partial deduction for the outgoings which relate to the use of the home for the work-related activities. These include:

- Heating
- Lighting
- Rates
- Insurance
- Mortgage interest/rent
- House and contents insurance
- Repairs and maintenance
- Telephone rental

The portion of outgoings that is deductible is based on the area used for the business, expressed as a percentage of the total area of the home:

$$\frac{\text{Area used for business purposes}}{\text{Total area of home}}$$

It is not necessary to set aside a specific room for business purposes, nor is it necessary for you to physically change your home to suit the business.

However, in cases where a separate room is not set aside, it may be appropriate to apportion the outgoings based on criteria such as the amount of time spent on income-earning activities as home as well as the area used. Examples of areas likely to be used for business purposes include:

- An office or office area
- A storeroom or storage area
- A workshop
- A garage or part of a garage which is used to house a business vehicle

## Square metre rate method

Instead of working out how much of your household costs to claim as business expenses, you can choose to use the square metre rate option. Inland Revenue reviews the rate each year for taxpayers to determine how much to claim for general business expenses incurred from the home. It's a two-step method:

- First, identify the area of the building used primarily for business purposes. Then multiply that area by the Inland Revenue rate, which excludes mortgage interest, rates or rent. The rate for the 2022-23 income year has been set at \$51.05 per square metre.
- A second deduction applies for mortgage, rates or rent. These costs are calculated in proportion to the fraction of the premises that is separately identifiable and used primarily for business purposes.

This means the total deduction is calculated using the formula:

(total premises costs × business proportion) + (business square metres × square metre rate)

## **GST**

If you're GST registered, you can claim a portion or percentage of the GST on the expenses. You can claim the GST content on home office expenses as you pay them — in each GST return period — or at the end of your tax year. This doesn't include mortgage interest and residential rent as there is no GST component in these.

## **Our recommendation for sole traders**

It can be hard to separate business from home life completely. As with any other business expenses you are claiming, you need to keep invoices and other records for these expenses. Keep written workings of all your calculations and be sure to keep records of your outgoings in a safe place.

## **Companies**

If a company uses a home office, say in the home of one of its shareholders, it cannot claim a deduction for the office unless it incurred the actual cost. If a company's shareholder or director runs the company's business through a home office and pays all expenses relating to the home office, Inland Revenue does not consider that the company has incurred any expense. The company cannot claim a deduction.

A company can claim a deduction where:

- It can prove the home office expense the company is claiming relates to earning business income. It can't claim for any private portion.
- It has incurred the expense within the income year the deduction is being claimed. Whether it paid the expense direct to the provider, or to the homeowner.

The company must keep records supporting this, along with any agreement allowing the company to use the home.

If the company reimburses an employee (or shareholder employee) for the use of their home office, in their work for the company, the reimbursement would be exempt income for the employee or shareholder employee.

For LTCs, an owner of a look-through company (LTC) cannot be considered to be a shareholder employee, although under certain conditions, they may be considered to be an employee. If look-through companies (LTCs) pay reimbursements to employees who are using their home office for work, the reimbursements are tax exempt. An owner of a look-through company can claim for the home office expenses, provided they can prove a nexus exists between the expenditure and the income they receive from the LTC.

## **Our recommendation for companies**

For any claim for a tax deduction or tax-exempt reimbursement for use of a home office for business purposes, a company must have sound supporting documentation. We can advise you on your company's situation.