June 29, 2020

Working from home tax deductions

The Covid-19 pandemic, together with lockdown levels implemented by government, has resulted in numerous employees working from home.

An employee working from home should be entitled to a tax deduction for expenses such as rent or mortgage interest, insurance, utilities, telephone and internet costs.

The principle in our tax law according to which home expenses can be deducted in the event of operating a business or generating additional income, is well established. Whether this principle also applies in the present *remote-working environment* amid the Covid-19 lockdown seems to be less certain.

What are the avenues to reduce tax liability of employees?

There are viable avenues to reduce the tax liability of employees and accommodate *home office expenses incurred during and after the lockdown* for employees who are working from home. These avenues include the following:

Sub-sections 23(b) and 23(m) of the Income Tax Act place certain restrictions on the deduction of home office expenses. However, exceptional circumstances are listed in section 23(b) which enable employees to deduct a portion of the expenses relating to their home office:

- The home office must be specifically equipped for the purposes of your occupation. Therefore, your home office must be set up and contain equipment that validates and demonstrates that the space is essential to your occupation.
- The home office must be used mainly for business or work purposes. This means that it must be **used regularly** for more than six months of the tax year, i.e. at least 187 days. **Regular use** means on a regular basis, not merely incidentally or occasionally.
- The home office must be **exclusively used** for business or work purposes. This means the part of the home designated as your office space may not be used for domestic purposes – for example, you cannot declare that having a desk in your main bedroom makes it your home office. **Exclusive use** means used **solely** for business purposes. The office space must be separate and easily identifiable, but it does not have to be a full room.
- The onus is always on the employee/tax payer to prove the above.

How can you determine the amount deductible as a home office expense?

This requires determining the percentage office space being used exclusively for business and work purposes in relation to the total home area.

If the home's total area is 1 000 square metres and the work area is 100 square metres, 10% of the qualifying home office expenses will be allowed as a tax deduction. Divide the total usable area of your home by your work area to arrive at your percentage.

Deductible home office expenses include indirect expenses incurred for work-related activities, based on the percentage of your home used for business purposes. These expenses include the following:

- Mortgage interest or rent
- Real estate taxes
- Security
- Insurance
- Home repairs
- Utilities, telephone and internet.

Conclusion

Employees who have been working from home during the lockdown period but might not qualify under the circumstances listed above, for example in terms of designated office space or a period of more than six months, should be able to apply the home office tax deduction in the next tax submission as SARS may be lenient given that such employees might not have had sufficient time to arrange proper designated areas. Employers that have amended their policies with regard to working from home will be able to motivate such deductions.

SERR Synergy offers a holistic solution that swiftly guides businesses through South Africa's business legislation maze in the direction of greatness. *Our range of business solutions include business registrations,* unique ownership structures, shareholder agreements and specialist information to make an informative decision to opt for the most appropriate business structure.

About the Author: Sanet van Zyl joined SERR Synergy in June 2014 and serves as Legal and Corporate Advisory Manager. She specialised in business solutions and corporate governance.

Other source:

https://www.iol.co.za/personal-finance/tax/home-office-expenses-and-tax-deductions-49573426