

The ABC's you should know

21 May 2024

Home Office Expenses

If your answer is **YES** to all the questions below, **you are eligible to claim Home Office Expenses**.

Did you receive remuneration for duties performed mainly (more than 50 %) in part of your private premises occupied for purposes of that remuneration?
Do you have a dedicated room in your premises?
Is this room specifically equipped for the purpose of that remuneration?
Is this room regularly used for purposes of performing the duties in relation to that remuneration?
Is this room exclusively used for purposes of performing the duties in relation to that remuneration?
Did you incur home office expenditure relating to your domestic premises? (Please refer to the guideline on the web-page with regard to what constitute home office expenditure)

What's New?

26 July 2023 – Interest on a bond as part of home office expenses – 2023 tax year

- The interest on a mortgage bond was previously allowed as a tax-deductible expense as part of the home office expenses. However, since the publication on 4 March 2022 of the updated Interpretation Note 28, dealing with deductions of home office expenses incurred by persons in employment or holding an office, it was clarified that with **effect from the 2023 tax year this expense is no longer deductible**.

Therefore, if you are in employment or hold an office and you meet the requirements to claim home office expenses for the 2023 tax year, you are no longer allowed to claim interest on the mortgage bond.

When will I be able to claim home office expenses?

If you are an employee who works from home and have set aside a room to be occupied for the purpose of "trade", you may be allowed to deduct certain expenses incurred in maintaining a home office, which will be calculated on a pro-rata basis: Provided that you meet the requirements as set

out in the Income Tax Act, section 11(a) read in conjunction with sections 23(b) and 23(m). See below for more information on section 23 (b).

What are the requirements for claiming home office expenses?

Section 23(b) of the Income Tax Act states that a tax deduction for home office expenses will only be considered:

1. If the room is **regularly and exclusively** used for the purposes of your trade, e.g. employment; and is **specifically equipped** for that purpose. The home office must therefore be set up solely for the purposes of your trade; **and**
2. If your remuneration consists only of a salary and similar remuneration, your duties must be **mainly** performed in this part of the home. It therefore means you must perform more than 50% of your duties in your home office; or
3. If **more than 50% of your remuneration consists of commission** or variable payments based on your work performance, more than 50% of those duties must be performed otherwise than in an office provided by your employer.

What constitutes home office expenditure?

Typically, the types of home office expenditure referred to in section 23(b), are those that are closely linked to the premises, namely:

- rent of the premises;
- cost of repairs to the premises; and
- expenses in connection with the premises, which could include:
 - rates and taxes;
 - cleaning costs; and
 - electricity.

Other typical expenditure that may qualify for a separate deduction in respect of maintaining a home office, include:

- general wear and tear on items used for trade purposes in the office;
- office equipment, furniture and fittings, and repairs thereto;
- phones;
- internet;
- stationery.

Note that the two lists above do not reflect expenditure that is necessarily deductible. The lists reflect only the types of expenditure that *may* typically be incurred in relation to maintaining a home office.

How do I calculate home office expenses?

Generally, the expenditure relating to the rent of, the cost of repairs of and in connection with the premises, is determined on the basis of **apportionment**. There may be instances where a type of expenditure is not subject to this apportionment and is, for example, fully excluded or included (see further below). SARS accepts that the correct apportionment method to calculate the proportion of expenditure attributable to a part of a premises occupied for purposes of trade, is apportionment based on floor area of the premises (square meters of area of home office *versus* total square meters of your home).

What is the method of calculating home office expenses?

Should you qualify for a deduction in respect of home office expenses, the amount must be calculated on the following basis: $A / B \times \text{total costs}$, where:

- A = the area in m² of the part specifically equipped and used regularly and exclusively for trade (namely, the qualifying home office)
- B = the total area in m² of the residence (including any outbuildings and the area used for trade in the residence)
- Total costs = the costs incurred that are linked closely to the premises (such as rent, rates and taxes, repairs, and electricity), excluding expenses of a capital nature.*

*Note that only expenses relating to the premises must be apportioned based on floor area (for example, rent, rates and taxes, cleaning, etc.). Expenses that are not in connection with the premises (such as wear and tear on equipment and furniture used for trade purposes) do not need to be apportioned based on floor area.

What are the Capital Gains Tax implications if I sell my house used partially for trade?

When a part of your home is used as a home office, that part is considered to "taint" the primary residence exclusion for CGT purposes.

Upon the sale of the home, the overall capital gain or loss will need to be apportioned between the tainted and untainted elements. This apportionment is done by taking into consideration the portion of the home being used for business purposes as a home office (based on floor area) and the period that the part was used as a home office. The primary residence exclusion of R2 million can only be set-off against the untainted portion of the capital gain or loss. The tainted portion of the capital gain must be fully brought to account.

