COVID-19: Working from home update

Employment Tax

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There are some points to note in relation to the temporary COVID-19 exemption for employer reimbursements of employee purchased home office equipment, and the Ministerial statement on claiming tax relief where employees incur additional household expenses as a result of working from home.

On 13 May 2020, Jesse Norman MP, the Financial Secretary to the Treasury (FST), announced a temporary tax exemption and National Insurance disregard where an employer reimburses an employee for the cost of home office equipment purchased in order to work from home during the COVID-19 outbreak (Exemption for coronavirus related reimbursed home office expenses: Written statement - HCWS237). Prior to this, on 23 March 2020, the FST advised that employees who have been advised to work from home during the COVID-19 outbreak are eligible to claim tax relief on the additional costs of working from home (Remote Working: Coronavirus:Written question - 33581).

Exemption for coronavirus related reimbursed home office expenses

As announced on 13 May 2020, legislation has been laid to 'support employees who are working from home and need to purchase home office equipment as a result of the coronavirus outbreak': see SI 2020/ 524: The Income Tax (Exemption for Coronavirus Related Home Office Expenses) Regulations 2020; and SI 2020/ 525: The Social Security Contributions (Disregarded Payments) (Coronavirus) Regulations 2020. Thus, where an employer reimburses the cost of purchasing equipment, the expense will not attract an income tax or NICs liability where the expenditure meets the following two conditions:

1. The equipment is/was obtained for the sole purpose of enabling the employee to work from home as a result of the coronavirus outbreak.
2. The provision of the equipment would have been exempt from income tax if it had been provided directly to the employee by or on behalf of the employer (under ITEPA 2003 s 316).

A tax information and impact note was published on 22 May 2020 (Income Tax and National Insurance contributions: exemption for home-office expenses) and the exemption, which is temporary and is only in force until the end of the 2020/21 tax year, came into force on 11 June 2020. However, HMRC are exercising their collection and management discretion to backdate the exemption to include any reimbursed payments made from 16 March 2020.

This exemption has been laid under powers provided for by ITEPA 2003 s 210 (power to exempt minor benefits) (and NICs equivalents). Section 210 requires that any exemption is conditional on the benefit being made available to all an employer's employees generally on similar terms. Therefore, employers should ensure that similar reimbursement terms apply to all employees that need to work from home.

At the time of writing, HMRC's detailed guidance is awaited but where an employer has, or will, reimburse the cost of qualifying home office equipment, they need to make sure the employee is aware that for the benefit-in-kind exemption to apply, the asset must not be used for significant private purposes (as required by ITEPA 2003 s 316). It may be advisable to make any reimbursement subject to terms to this effect.

Our understanding is that provided the asset is being solely or mainly used in performing the duties of the employment at the time of reimbursement and while working from home, any change from business to private use of the asset when the employee returns to work at their normal workplace will not cause a tax liability to arise. Where the costs of home office equipment are not reimbursed, HMRC is clear that tax relief will only be available to the employee if the cost was incurred 'wholly, exclusively and necessarily in the performance of the duties of their employment'. Generally, it is unlikely that tax relief will be agreed under ITEPA 2003 s 336, as buying the equipment simply puts the employee in a position to perform their duties and is therefore not incurred in performance of their duties; however, the cost of any consumables (for example, printer paper or ink) may be deductible.

Remote working: Coronavirus

On 23 March 2020, the government was asked 'whether workers who have been advised to work from home during the COVID-19 outbreak are eligible to claim tax relief for: (a) heating and lighting the room they work in; and (b) the cost of business telephone calls.'

In answer, the FST advised:

'Employees who have been advised to work from home during the COVID-19 outbreak are eligible to claim tax relief for heating and lighting the room that they work in, and for the costs of business telephone calls. They can claim a fixed amount of £4 per week up to 5 April 2020, then £6 per week thereafter. This increase was announced at Budget. Alternatively, employees can claim relief on the actual amounts incurred, subject to being able to provide evidence, such as phone bills.'

Normally, an employee's ability to claim tax relief on the cost of additional household expenses arising from working from home (after taking into account any tax-free payment received from the employer under ITEPA 2003 s 316A) relies on the general rules for deduction of employee's expenses at ITEPA 2003 s 336. As noted above, this requires that the cost was incurred 'wholly, exclusively and necessarily in the performance of the duties of their employment', which is a notoriously difficult test to satisfy.

We understand, however, that where an employee is working from home as a direct consequence of the COVID-19 outbreak, an employee will be able to submit a claim for tax relief on unreimbursed additional costs of heating and lighting. HMRC can no doubt expect an influx of claims for tax relief! Note that the HMRC Manuals (at paragraph EIM32815) confirm that, for ease of administration, HMRC accept that employees who satisfy the conditions for relief can claim a deduction of £4/£6 per week (exclusive of the cost of business telephone calls) for each week that they are required to work at home, without having to justify that figure.

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