South African Revenue Service

Home office expense

Welcome to the SARS Home Office Expenses Webinar

Purpose:
This presentation is merely to provide information in an easily understandable format and is intended to make the provisions of the legislation more accessible

Disclaimer:
The information therefore has no binding legal effect and the relevant legislation must be consulted in the event of any doubt as to the meaning or application of any provision.

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Points for Discussion

Introduction

Requirements for a home office

Calculating a home office deduction

Home office and Capital Gains Tax (CGT)

Record Keeping

Introduction

- South African Revenue Services has over the years allowed the deduction of home office expenses in the determination of taxable income.
- Due to Covid-19, the work environment was forced to change. Many employees worked from home, either on a full time or part time basis.
- South Africans could qualify to claim home office expense deduction when they submit their 2021 tax return, provided they meet the requirements as set out in the Income Tax Act.
- This applies if taxpayers earn mainly commission, are independent contractors, freelancers or even employed individuals.

Requirements for a Home office

Applicable Section	Deduction
Section 11(*a*)	• Expenditure or losses • Actually incurred • In the production of income • Not of capital nature.

Section23(*b*)	• Part of domestic premises must be used for purposes of trade
	• Part which is used, must be <u>regularly</u> and <u>exclusively</u> used for trade
	• Must be <u>specifically equipped</u> for the purpose of trade
	• For employees or office holders, duties must be <u>mainly</u> (more than 50%) performed-
	    • for commission-earners, outside of employer premises
	    • for all other employees and office holders, in the home office

Section 23(*m*)	• Prohibits deductions for employees unless their remuneration normally consists more than 50% of commission • Does not apply to deductions contemplated in sections 11(c), (e), (i), (j), (nA), (nB), section 11F and section 18A • Section 23(m) also creates an exception for home office expenses, provided they meet the requirements of section 23(b).

Requirements for a Home office

- The part of the home, i.e., the office space, for which a claim is submitted must be occupied for purposes of a trade (which includes employment).

- The office occupied must be specifically equipped for purposes of the trade, e.g. a home study, with a desk, computer, and so forth.

- The employee must regularly and exclusively use the office for business purposes, i.e. it cannot be used for private purposes. If an employee does not have a separate study or office available in their home, home office expenditure will not be allowed as a deduction.

Requirements for a Home office

- Employees who are not commission earners, but who spend the majority of their time on the road visiting clients, performing their duties mainly at their clients' premises do not qualify for a deduction/claim of home office.
- The employee's duties must be performed mainly, i.e., more than 50%, in their home office. (not applicable to commissions earners)
- The employer must allow the employee to work from home. Confirmation thereof will be a requirement upon Audit. (not applicable to commissions earners)

Home office deduction

Expense of a capital nature are not allowed i.e. repayments on bond capital, limited to interest on the bond. The expenses must be actually incurred and in the tax year in question e.g. in 2021 tax year is from (2020-03-01 to 2021-02-28) and all expense incurred must relate to the home office.

Below are example of expenses that can be claimed;

- rent of the premises
- interest on a bond
- repairs
- rates and taxes
- cleaning
- other expenses in connection with the premises;
- phones (only commission earners can claim for phones).
- stationery (only commission earners can claim for stationery).
- wear-and-tear on office equipment

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Home office deduction

- Calculate the area of your home office as a percentage of the total area of your home.
- Apply this percentage to the total expenditure in respect of the home, e.g. rent, bond interest, water and electricity, rates and taxes, repairs.
- Add any other allowable expenditure, e.g. Wear-and-tear, etc.
- Ensure the calculation is available for SARS inspection, along with all supporting documents (invoices, bond statement, municipal bill, rental agreement etc.).

Home office deduction

Example

Sipho had the following expenses

Calculation of expenses

Interest on bond	R25 545
Cost of repairs to the whole premises (roof)	R10 200
Wear-and-tear	R 2 520
Rates & Taxes	R 4 515
Electricity	R 6 400
Domestic Worker	R 5 880
	R55 060

Relevant invoices will be required upon audit otherwise the claim will be disallowed.

Home office deduction

Calculation of apportionment

Floor space of Office (square metres)
Floor space of House (square metres)

$$= \frac{5m \times 2m}{8m \times 12.5m} = \frac{10m^2}{100m^2} = \underline{10\%}$$

The portion of the home used as the home office is 10%

Calculation of deduction

((R55 060 – R2 520 wear-and-tear) x 10%) + R2 520 wear-and-tear
= (R52 540 x 10%) + R2 520
=R5 254 + R2 520

Allowable Deductions **R7 774**

Home office deduction

The impact of the home office deduction. Sipho's taxable income was R456 000.

Taxable income	R456 000
Less Allowable Deductions	R 7 774
Taxable income	R448 226

Lower taxable income means you will pay less tax. Before you decide to claim home office expenses be sure that all the requirement of a home office are met. Have all relevant supporting document to substantiate the claim .

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Home office and Capital Gains Tax(CGT)

The primary residence for an individual is the first R2million of any capital gain or loss arising on sale or the first R2million of proceeds from the disposal.

When a part of your home is used a home office and a deduction is claimed for, this part of your home is considered "tainted" for capital gains tax purposes.

Upon the sale home the overall capital gain/loss will need to be apportioned between its tainted (trade) and untainted (private) elements.

The primary residence exclusion can only be set-off against the untainted (private) portion of the capital gain/loss and the tainted (trade) portion of the capital gain must be fully brought to account.

Home office and Capital Gains Tax(CGT)

The tax impact that home office has on the calculation of capital gains tax, upon sale of a property in the future, could be considerable.

The following example illustrates how the primary residence exclusion works and how a home office could affect the tax due on disposal.

Sipho purchased a home in February 2010 for R1,200,000. In February 2018, he carried out renovations to add on an extra bedroom and spent R300,000. He will lived in this home until February 2022 when he sells it for R3,500,000. His taxable income for 2022 will be R500,000.

Home office and Capital Gains Tax(CGT)

The Capital Gains Tax calculation is as follows:

Proceeds:	R3,500,000
Base Cost: (R1,200,000 + R300,000)	R1,500,000
Capital Gain (proceeds – less base cost R3,500,000 – R1,500,000)	**R2,000,000**

Capital Gain	R2, 000,000
Less: primary residence exclusion:	R2,000,000
Taxable Capital Gain	**Nil**

No annual exclusion of R40,000 because the Capital Gain is nil so cannot be reduced further.

Therefore, the sale of Sipho's home has no impact on his capital gains tax liability. This is because the capital gain (R2m) is equal to the primary residence exclusion (R2m) which reduces it to nil.

Home office and Capital Gains Tax(CGT)

Same example assume all details remain the same, but instead of an extra room, Sipho carried out renovations for R300,000 to add on an office from where he works until he sells his home in February 2022. The office space made up approximately 10% of his total house space. He therefore claimed 10% of his house running costs as a tax deduction against his business income.

In this situation, the capital gain must be apportioned between primary residence use and trade use. This apportionment must take into account two factors:

- The length of time that the home office was used as a portion of the entire period of ownership (4 years out of 12 years in our example)
- size of the home office compared to the size of the entire property (10% in our example)

Home office and Capital Gains Tax(CGT)

Assuming all other details are exactly the same as in the first example, the Capital Gains Calculation is as follows:

Proceeds	R3,500,000
Less Base Cost: (R1,200,000 + R300,000)	R1,500,000
Capital Gain (proceeds – base cost) (R3,500,000 – R1,500,000)	**R2,000,000**

Less: apportionment for period (4 years out of 12) during which home was partially used (10%) for home office purposes:

R2,000,000 X 4/12 X 10% = R66,666

Home office and Capital Gains Tax(CGT)

Portion of the capital gain attributable to the property's use as a primary residence:

Capital Gain	R2,000,000
Less Home Office	R 66,666
	R1,933,334

Due to the primary residence exclusion, the R1,933,334 capital gain attributable to private residence is Rnil.

Portion of the capital gain attributable to the property's use as a home office:

Capital Gain	R2,000,000
Less primary exclusion	R1,933,333
Total Capital Gain:	**R66,666**

Less: annual exclusion R66,666 – R40,000 = R26,666

Home office and Capital Gains Tax(CGT)

The inclusion rate for capital gains is 40% for individuals. This means that 40% of the gain (i.e. R26,666 X 40% = R10,666) is added to Sipho's taxable income and will be taxed at his marginal rate of tax.

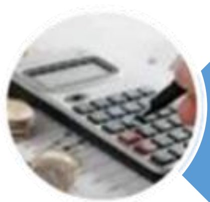
If we assume his marginal tax rate is 36%, then approximately R3,840 capital gains tax will be payable (i.e. R10,666 X 36%).

If he had not used part as a home office, then capital gains tax on the disposal of the property would have been nil as illustrated in the first part of the example.

Record Keeping

Documentary proof is essential to enable you to claim actual expenses incurred

Expenses may be overlooked, unless you record them at the time they are incurred



To enable you to complete your tax returns accurately

All documents must be kept for a period of 5 years

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Thank you

Re a leboha

Re a leboga

Ndza Khensa

Dankie

Ndi a livhuwa

Ngiyabonga

Enkosi

Ngiyathokoza

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