

NEWSLETTER - Oct'20

WELCOME

"With each unique client we challenge ourselves to ensure you achieve strategic growth within your organisation"

We achieve this with emphasis on
clear and concise reporting

HELPING YOU MAKE THE CONNECTION BETWEEN
SALES, FINANCE & PROFITS

F D OUTSOURCE

more than accountants

HAS WORKING FROM HOME LANDED YOU WITH A CGT BILL?

The coronavirus lockdown has raised the thorny question of how capital gains tax private residence relief might be affected if you work from home as a result. Is this something you should be concerned about?

Home Office

As a rule of thumb, working from home for a short period is very unlikely to result in you owing capital gains tax when you sell. The reason is that even if you sell your home for considerably more than you paid for it, the taxable capital gain is just a proportion of the total gain and is likely to be covered by your capital gains tax (CGT) annual exemption.

Example:

Dimitri and his wife make a gain of £200,000 on the sale of their home which they bought six years earlier.

For one year Dimitri used 20% of his home exclusively for his business. The taxable part of the gain is therefore $\text{£}200,000/6 \times 20\% = \text{£}6,666$, i.e. $\text{£}3,333$ for both Dimitri and his wife. Neither have used their annual CGT exemption, which for 2020/21 is $\text{£}12,300$ each. But what if Dimitri had only just bought his home and works from there until it's sold a few years later for a hefty gain?

Tip:

If the part of your home used for business is one of those fancy sheds in your garden, the chance of there being a taxable gain when you sell is still remote. You should value the "shed" separately from your main home; its sale value is likely to be less than what it cost you to install, i.e. you will have made a loss not a gain.

Employed or Self Employed

The rules for working out the taxable part of a gain and the private residence relief (PRR) differ depending on whether you're an employee or self-employed (this includes partners in a business).

Self Employed

If you use any part of your home exclusively for "trade or business, or of a profession or vocation", the gain relating to that part (calculated in line with the example above) doesn't qualify for PRR

Employees (including Directors)

Rather than working out the part of the gain relating to the business and not allowing PRR against it, as an employee or director if you use part of your home, e.g. a garden office, exclusively for work you adjust the PRR in a “just and reasonable” way to arrive at the taxable amount. The result is broadly the same as for the self-employed despite the different method.

HMRC's VIEW

HMRC acknowledges the difference in how the rules work. More significantly, in its internal guidance for tax inspectors it says “No adjustment” to reduce PRR “should be made where, for example, a room is used as a study”. However, it goes on to say “If a substantial part of the residence is used exclusively as an office” then PRR should be restricted.

Tip:

Take advantage of HMRC's approach by limiting exclusive use for work to no more than one room in your home, that way you won't lose any PRR when you sell it.

HMRC doesn't specifically comment on whether it considers a fancy garden shed to be a single room, but it seems to us logical that it would, unless it was especially large. In that case an apportionment of PRR is required, but for the reasons stated above it is unlikely to result in a CGT bill.

If you're a director or employee and only use one room in your home exclusively for work it won't affect the capital gains tax (CGT) private residence relief you can claim. If you're self-employed, a short period of homeworking is very unlikely to result in a CGT bill. The same is true if your office consists of a fancy shed in the garden.

To Our Stakeholders

FD Outsource is committed to working directly with Sales Driven MD's within their specialised sector to ensure they achieve continual strategic growth.

The Strategic Growth can be measured against the business plan using quantifiable financial measures.

These financial measures can be within Sales/Revenue, Gross Margins, Cashflow, Profitability and Net Worth.

The milestones set in the business plan will be monitored and reviewed at regular intervals through the business life cycle with continual focus on succession planning with the management team.

Our internal core values can be seen within our 5c Guarantee provided to all clients. These are:

- CCommunication
- CCreativity
- CCoherence
- CCommitment
- CConclusion

Analyse , Identify and Plan

Our priority is that cash flow doesn't become a Barrier to Growth and business profits be converted in to personal wealth.

Sincerely

A handwritten signature in white ink that reads 'Mark Terrington'.

Mark Terrington
Founder & CEO

WE WORK WITH SALES DRIVEN
BUSINESS OWNERS

HELPING YOU MAKE THE CONNECTION
BETWEEN
SALES, FINANCE AND PROFITS



For a Free discussion on how you can
make the connection and convert
business profit in to personal wealth.
Contact us today

enquiries@fdoutsource.co.uk