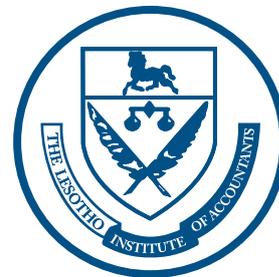


Home Office Expenses

Are they deductible for Tax Purposes?



Overview of the tax requirements that need to be met to claim a tax deduction for home office expenses.

The COVID-19 pandemic has forced many employees to work remotely from their homes during the lockdown period. This in turn has meant that employees had to ensure that a space, or part of their home, was set up in such a manner that it was conducive for them to work from home effectively and productively.

As a result, many employees have since the first lockdown last year 2020, March incurred additional expenses that they would not have ordinarily incurred had they continued to work from the employer's office. Since some of the cost of doing business has essentially been transferred from the employer to employees, many employees are now assessing whether would be able to claim these expenses incurred in connection with the running of their home office as a tax deduction.

In this article, I provide a brief overview of the requirements that need to be met in order to claim a tax deduction for home office expenses.

What constitutes home office expenses?

A **"home office"** includes a house, apartment, or similar property and all structures or other property connected to the residence (but not any portion you exclusively rented out to others as a hotel, motel, inn, or similar establishment).

Home office expenses will typically include an expenditure you incurred:

- To borrow money for the purpose of acquiring a principal residence, including interest on the money borrowed,
- To lease a principal residence, including rental payments under the lease,
- To insure your principal residence and its contents,
- For heating and lighting of your principal residence,
- For maintaining your home office, or
- For depreciation and repair of the furniture and equipment used in the home office.



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What requirements must be met for home office expenses to be deducted for tax purposes?

If you are required to work at home and you have set aside a room or part of your home to be occupied for purposes of your principal place of work, you may be allowed to deduct certain home office expenses for tax purposes calculated on a pro-rata basis.

A room or part of your home will be considered to be occupied for the purposes of your principal place of work if both of the following requirements are met:

- Exclusively and on a regular basis as your principal place of work, and
- For the convenience and at the request of your employer.

Importantly, in addition to the above requirements, should the room or part of your home meet the above requirements and your home office constitutes employment or holding of an office (i.e. you are a salaried employee), a tax deduction will only be granted to you in respect of your home office expenses if:

- The sum of the home office expenses, and other unreimbursed expenses exceed both M2,500 and 5% of your gross income.
- If a home office expense is not wholly attributable to the home office, the deductible amount for that expense is determined by multiplying the expense by a fraction equal to the floor area of your home office divided by the total floor area of your principal residence.

Tax tips

- It is apparent from the above that generally, few employees (who earn salary income only or no/limited commission income) would qualify to claim a tax deduction for home office expenses. You should therefore only claim such a tax deduction if you are able to demonstrably prove to the Lesotho Revenue Authority (LRA) that you have met the above requirements.
- Be sure to document in your employment contract/agreement with employer that you are required to use a room or part of a room in your house for trade/business purposes. This will strengthen your tax position should LRA request you to prove this. If you are a salaried employee who qualifies for a home office tax deduction, you should ideally receive an allowance from your employer against which you can claim the tax deduction in your tax return.
- You need not necessarily set aside an entire room for use as a home office. You may set aside only part of a room, provided that part is specifically equipped for the purposes of your principal place of work and regularly and exclusively used for this purpose.
- Household expenses that may be included in your home office tax deduction include your bond interest (or if you are renting a house, the rent payable by you), rates and taxes, electricity, insurance, domestic worker's wages, cost of repairs etc. incurred in respect of the home office. In addition to household expenses, other amounts that may be claimed include depreciation on furniture and fittings and equipment used in your office for business purposes. The depreciation is calculated using the depreciation rates set out in the Sixth Schedule. The cost of business calls made from your private home telephone line may also be claimed as a tax deduction.
- Your tax deduction for home office expenses is generally calculated on a pro-rata basis taking into account the size of the home office (namely, that part which meet the above requirements) relative to the size of your entire home (in square metres).
- Capital expenditure – E.g. buildings and other structures of a permanent nature costs – may not be deducted as home office expenditure for tax purposes. The cost of any portion of the employee's domestic premises and improvements thereto may, therefore, not be deducted. Note that as the distinction between a deductible maintenance and non-deductible improvement is sometimes difficult, it is recommended that professional advice be sought in the case of uncertainty.

Sources:

1. Lesotho Income Tax Order, 1993 (As amended)
2. Lesotho Revenue Authority, Individual Taxpayer Instructions form 2018