May 2021

**Guide to claiming home office expenses for income tax deductions**

Dear UCT colleagues

If you meet a specific set of strict conditions, the South African Revenue Service (SARS) will allow you to claim a tax deduction for the time you worked from home during the 2021 tax year.

The first condition is that you must have performed your employment duties mainly in your home office for more than six months of the year of assessment (beginning on 1 March 2020 and ending on 28 February 2021). If this is the case, your head of department can complete the Verification of Remote Work letter template for you to submit to SARS.

* **Download the** **Verification of Remote Work letter template**.

To claim a proportion of your household expenses during that period as a deduction on your tax assessment, you must also meet the following requirements.

1. The area you claim as a home office must be occupied for work purposes only. In other words, it must be a dedicated home office in your residence that has been set up for what SARS refers to as your “trade” (your employment). SARS requires that that this area must be a separate room; it cannot be a part of a room.
2. Your home office must be specifically equipped for work purposes. It must contain the necessary office furniture, computer equipment and stationery required for you to work, and it must be regularly and exclusively used for work purposes. This means that it cannot be a space set up on your dining room table or in a spare bedroom that is also used for any other purpose. Your home office cannot be used for any other purpose.
3. Because the nature of the work you perform is for employment purposes, **one** of the following criteria must also be met:
   1. your duties must have been performed mainly in that home office for which you are seeking to claim a tax deduction; or
   2. the income derived from employment must be mainly commission or other variable payments which are based on your work performance (that is, the total commission or variable payments must exceed 50% of total income from employment), and your duties must have not been performed in an office provided by the University. Furthermore, even if you spent more than half of the year not working on the University’s premises, in order to qualify for the deduction, you would need to have spent the majority of the time during the year of assessment actually working in the area for which you are seeking to claim a deduction. For instance, if you split your time between working in the home office area, working from a coffee shop and working from a friend’s or relative’s house, unless you spent **more than 50% of your time working from the home office**, you will not be able to claim for any home office expenses. If you are queried by SARS, the onus of proof is on you to prove all aspects of your claim. This condition is also affected if you spend most of your working time on the road visiting clients or if you performed your duties mainly at a customer’s or supplier’s premises.

These requirements have been summarised by UCT’s tax advisers and they are listed in section 23(b) of the [Income Tax Act, 58 of 1926](https://www.gov.za/documents/income-tax-act-29-may-1962-0000). If you have met these requirements, generally you can take into account the following types of expenses to determine your claim as a tax deduction – but **only for the period during which you used that space as a home office**:

* rent of the premises or interest on a mortgage bond;
* cost of repairs to the premises. (If it is a repair to the specific area used as a home office, then that full cost can be taken into account in determining the quantum of the deduction, otherwise a repair to the house, such as a roof repair, would typically only be deductible on a pro rata basis.)
* rates and taxes;
* electricity and water;
* levies; and
* other similar relevant expenses in connection with the premises.

In determining the above costs of your home office, this is typically a pro rata percentage based on the floor area of the office compared to the total floor area of the house. So, for instance, if your home office floor area is equal to 10% of your total premises floor area, then deductible expenses for electricity/water, rates and taxes and other related expenses would be calculated at 10 % of the total amounts you paid for the relevant tax period. Repairs need to be distinguished from improvements to the property, as the latter are capital in nature and not typically deductible.

If you are in any doubt about what expenses can be deducted, please seek expert advice from a tax professional.

**Example: Determination of home office deduction**

A salaried employee was permitted or required to work from home during a specific tax year. The employee maintains a home office, which has specifically been set up for the purposes of their employment duties.

Facts: The home office is used regularly and exclusively for the purposes of work. The duties were performed mainly in the home office for more than six months during the tax year. The total area (measured in square metres) of the home study is 20 m2 while the total area of the house is 200 m2. So the percentage area of the home office in relation to the total area of the house is 20/200, or 10%. The interest on the household bond amounts to R125 000 a year and the rates for the year total R15 000.

Result: Since the employee’s duties are performed mainly in the home office, the employee meets the requirements of section 23(b): specifically, the employee maintains a home office area which is regularly and exclusively used for the purposes of earning income; and the home office has been specifically equipped and is mainly used for the purposes of trade. Since 10% of the total area of the house relates to the home office, 10% of the interest on bond, rates and taxes costs will be allowed as a deduction. Therefore, the employee may claim the following expenses:

* Pro-rata percentage of the interest on the mortgage bond i.e. R12 500\*.
* Pro-rata percentage of the rates and taxes i.e. R1 500\*.

**Capital gains tax considerations**

If you claim home office expenses and you own the property that is used as a home office, it is important to consider the capital gains tax implications. Upon the sale of your house, that portion of the capital gain ascribed to the home office will be excluded from the current R2 million primary residence exclusion for capital gains tax purposes. This means that the capital gain attributable to the area used as a home office will be subject to capital gains tax (subject to the annual exclusion).

Please note that UCT Human Resources will not be able to provide any advice on claiming deductions from SARS for working from home since lockdown began in March 2020.