

The tax pros and cons of an office in the garden

Instead of using the already limited space in your home for an office, you're considering creating an outbuilding in your garden. What sort of tax relief will you be entitled to on the cost of the structure and its running costs?

Inside or out

These days a popular alternative to converting a garage or loft to use as a home office is ready-made or DIY outbuildings set in your garden. There are, of course, a number of factors to consider including the tax consequences.

Ready-made or DIY?

There's a big market in ready-made garden office buildings and an online search will give you a stack of options and price ranges to choose from. However, if you're handy with design and using tools, you could build one from scratch. In either case planning permission isn't usually required and there's no difference in the tax treatment of the cost of installing a ready-made office or building your own.

Tax deductions for installing or building

The bad news is that even though a garden office is a moveable item it counts as a structure from which your business operates rather than an item of equipment. As a result none of the costs of a DIY construction or the purchase price of a ready-made office is deductible from your business profits.

Trap. Design and other costs directly associated with building and installing the office, including delivery charges, count as part of the cost of the structure and therefore are also not tax deductible from profits. The cost of initial decoration falls into this category.

Tip 1. The normal tax rules apply to the cost of furniture, e.g. curtains, desks etc., fixings, e.g. shelves and systems, which you add to the structure. This means a deduction for capital allowances (CAs) can be claimed.

Tip 2. The cost of thermal insulation fitted or built into the office also qualifies for CAs even where it forms part of the structure.

Tip 3. Where the cost of furniture etc. is within the annual investment allowance the whole amount qualifies for a tax deduction for the financial year in which it is incurred.

Running costs

The cost of heating and lighting the office is tax deductible, as is the supply of water if it's separately metered from your home. Repairs, including redecoration costs, are also tax deductible.

VAT

The good news is that the VAT rules regarding structures differ from those for income tax and corporation tax. It can be reclaimed on not just the running expenses, but also the cost of building your own or buying a ready-made office.

Selling the office

Usually you won't have to worry about tax if or when you sell the office, either by itself or with your home, because it will probably be worth less than the cost of the structure, meaning there's no profit or gain to tax. Even if it's worth more, any gain is likely to be exempt from capital gains tax.

Summary

The cost of building or buying a ready-made office for your garden isn't tax deductible from your business profits. Conversely, tax deductions (capital allowances) can be claimed for thermal insulation, furniture and fixtures. Deductions are also allowed for repairs, lighting and heating costs.