Personal property and property used for business

DISTINCTION BETWEEN PERSONAL PROPERTY AND PROPERTY USED FOR BUSINESS PURPOSES

- ※ During engagement in business, the property in personal use must be separated from the property used for business purposes.

- ※ If spouses' joint property is concerned, it is important in whose name the property has been acquired. Self-employed persons have the right to deduct certified expenses made by themselves only from their business income, although the expenditure may have been made on the account of the spouses' joint property and the property acquired belongs into the joint property. Therefore, the spouse's name who is the self-employed person must be indicated on the expense receipt certifying the expenditure related to business indicated as the person making the expenditure.

- ※ Income received from transfer of securities is not charged as business income but as gains from the transfer of a natural person's property and must be declared on form A of the income tax return for natural person.

Often the property is related to business only partly. Depending on the property, it may be relatively simple to divide it into legal shares according to the application and find the size of the part used just in business.

Example
An operator uses one room (surface area 12 m^2) as a working room from its apartment (total surface area 63 m^2). The working room is used in business only, i.e. it is not used for personal purposes. Thus, the proportion of the use of the apartment in business is 19 per cent (12 ÷ 63 × 100). If the operator makes repairs in the whole apartment, it is possible to enter 19 per cent of the expenses incurred for the repairs of the apartment into the expenses related to business (according to the proportion of the working room of the total surface area of the apartment).
If the rooms not used for business activities are repaired, the expenses incurred may not be indicated in the expenses related to business.
If the repairs are done only in the room used for business, all the expenses incurred for the repairs are considered the expenses related to business.

In several cases, self-employed persons use their property both in business and for own personal use and the property cannot be divided into legal shares. In such cases, self-employed persons themselves must determine the part of any property to be used in business.

- ✓ First, all assets and goods used exclusively for business purposes must be separated. Such properties and goods may be tools, materials, semi-finished products, etc.

- ✓ Then, it is required to separate the assets and goods which the self-employed person uses in addition to business also for own personal use (the proportions between the business activities and personal use must be determined).

Example
A self-employed person uses its automobile both for private journeys and for business purposes. He/she keeps records of journeys made for business purposes. The total distance run during the period is 50,000 km from where, according to the records kept on driving, 10,000 km had been run for business purposes. Thus, 20 per cent of the expenses incurred for the automobile may be deducted from the expenses related to business (10,000 ÷ 50,000 × 100).

The proportion of the use of the automobile for business purposes may be calculated on the basis of some other method as well.

- ✓ Finally, the proportions of the assets and goods used both by the self-employed person and his/her family members in personal use in addition to the use for business purposes must be determined.

Example
A self-employed person acquired a computer, which is used in business activity 45 per cent of the working time according to the calculations. The self-employed person's spouse and children use the computer during the rest of the time, i.e. it is in use for activities other than business.
The self-employed person deducted 45 per cent of the acquisition cost of the computer from the business income. It is also allowed to deduct 45 per cent of the additional expenses incurred for the computer from the business income (extensions in the hardware, new computer programs, etc.). Upon acquiring a program for the computer, it should be specified whether the program is necessary for the self-employed person's business and if so, then to what extent. If a self-employed person offering accounting services acquires a new accounting program, this will be business-related expenditure. Purchasing a new computer game for the self-employed person's children is not business-related expenditure.

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