

## Deduction of Home Office Expenses



### Background

Work from home mandates extended into the greater part of 2021 and on December 14, 2021, Canada Revenue Agency (CRA) announced the continuation of the work from home credit that was introduced in 2020. Unchanged are the same two methods for claiming home office expenses incurred in 2021 as a result of working from home due to Covid-19. Employees who meet certain conditions may be eligible to claim certain home office expenses using either the temporary **flat rate method** or **the detailed method**. Employees opting to use the detailed method, will require a completed Form T2200S (Declaration of Conditions of Employment for Working at Home Due to COVID-19) to assist in the ability to calculate and claim a deduction regarding the portion of eligible workspace expenses and supplies in the preparation of your (2021) personal income tax return. Employees opting to use the flat rate method, the maximum claim amount for 2021 is \$500 or \$2 / day up to 250 days.

We are providing this general guidance in support of employees who are considering claiming home office expenses incurred in 2021. It is important for you to understand these rules to ensure that you claim the appropriate expenses on your personal tax returns. The University does not take on any responsibility with respect to the decision an employee makes to deduct these expenses on their tax return. We recommend that you seek tax advice from your professional tax advisor on this matter.

### Overview

Before 2020, pursuant to existing legislation under the *Income Tax Act* (Canada) (“ITA”), an employer may issue to an employee an authorized Certification using the Canada Revenue Agency (“CRA”)’s prescribed form T2200 – *Declaration of Conditions of Employment* to facilitate the employees’ ability to claim home office expenses and supplies to the extent certain conditions are met. For 2021 tax year, under the CRA’s new administrative policy, the taxpayer may claim home office expenses using two different methods.

### Option 1 – Simplified method

You can claim \$2 for each day worked from home due to the COVID-19 pandemic. Exclude days off, vacation days, sick leave days, and other leaves or absences from your count.

Advantages:

- Claim up to \$500 for the 2021 tax year. \$500 is the equivalent of 250 days working from home.
- No need to maintain a record of supporting documents, expenses or receipts for an audit.
- A T2200S is not required from the university.
- No need to calculate the size of your workspace.

By using this method, you cannot claim any other employment expenses.

### Option 2 – Detailed method

In cases where an employee is able to provide support that the amount of actual eligible expenses incurred are in excess of \$500.00 and thus chooses to claim the actual amount, in 2021 tax year, an authorized Form T2200S – *Declaration of Conditions of Employment for Working at Home Due to COVID-19* is required to be provided by the employer and retained by

the employee. Otherwise, the claim on the deduction of actual expenses incurred could be denied under a CRA audit.

Based on legislation and CRA Policy announcements as of January 18,2022:

To determine whether Form T2200S can be issued to an employee for 2021 tax year, all the following requirements must be met:

1. The employee was required by the University, either through written or verbal communication to work from home for at least four consecutive weeks in 2021 due to the COVID-19 pandemic. In a situation where the University provided you with the choice to work at home because of the COVID-19 pandemic, the CRA will consider you to have worked from home due to COVID-19;
2. The employee was not and would not be fully reimbursed for expenses related to home office expenses;
3. The workspace expenses may reasonably be regarded as required to earn employment income (i.e. employee needed a place to work from home to perform employee's employment duties – see detailed criteria under "Work Home Expenses"); and
4. In the case of home office supplies, they were consumed directly in the performance of the employee's duties of employment.

In respect of the detailed method, the following sections provide more detail as to how employees are considered eligible to claim expenses related to a workspace in their home, what type of home office expenses are considered eligible, and how much of home office expenses incurred can be claimed.

### Workspace Expenses

For 2021 tax year, an employee may only deduct workspace expenses to the extent that the workspace meets one of the following conditions:

1. The workspace is the place where the employee principally (more than 50% of the time) performs employment duties for a period of at least four consecutive weeks, or
2. The employee uses the workspace exclusively during the period in respect of which the expenses relate to earning employment income, on a regular and continuous basis for meeting customers or clients.

Given the circumstances of the COVID-19 pandemic, employees may claim deductions in relation to the portion of the year that they worked from home if they met one of the above conditions. In the case of the employees of the University, condition #1 would be met for a period of at least four consecutive weeks where they have been asked to work from home represents more than 50% of the performance of their employment responsibility.

In a situation where an employee voluntarily returned to the University's work location and no longer worked more than 50% from home, it is the employee's responsibility to only deduct eligible expenses to accurately represent the percentage of the year that the employee was primarily working from home.

### Types of Home Office Expenses

The Income Tax Act (ITA) states that deductible workspace expenses consist of a reasonable proportion of expenses paid by the employee for the maintenance of the home, for example, the cost of

- Electricity, heating and water
- Maintenance costs, such as cleaning materials and light bulbs
- Minor repairs
- Home internet access fees

Based on legislation and CRA Policy announcements as of January 18,2022

- The portion of condominium fees that relate to utilities (such as electricity, heat, and water)
- Reasonable portion of rent if the home is rented

Specifically excluded from the claim list for salaried employees are the following items:

- Mortgage interest and/or principal mortgage payments
  - Property taxes
  - Home Insurance
  - Home internet connection (setup) fees
- 
- Capital Cost allowance on the home if owned Some other considerations include:If an employee pays their utilities (electricity, heat, and water) directly to a service provider, no portion of condominium fees is deductible.
  - Costs that are directly incurred in relation to the workspace may be fully deductible but cannot include items that are capital in nature, for example:
    - laptops, monitors, printers, fax machines, calculators, briefcases, small equipment, etc.
    - furniture, including desks, chairs, filing cabinets, lamps, ergonomic furniture, etc.Thus, cleaning costs that are specific to the workspace that is exclusively used as a work area would be deductible.
  - Generally, the deduction of workspace-related costs must be apportioned to the area of the home that is used as a workspace using a method that is considered reasonable.

## Workspace Determination

### General approach

There is no requirement under the ITA to only use one method of allocating costs where another method reflects a more accurate allocation of the cost category that is fair and reasonable.

The portion of costs related to a home office is generally determined based on the square footage of the home office space as a percentage of the home's total finished area square footage including the square footage of finished basement space. This method would be used for costs that support the overall operation of the home, such as utilities, rent, maintenance costs, and minor repairs.

To the extent that the workspace is a shared space that also has a personal use component (for example the kitchen table) then a factor would be applied to ensure that only the employment portion of use is included. See *Example 2* in the Appendix.

### Internet cost allocation

A fair and reasonable method to allocate bundled costs such as home internet would be based on the time when the internet is being used for business purposes in relation to the time used for personal purposes. This could be tracked by monitoring the time access usage for the internet between business use and personal use and taking into consideration if there were multiple family members using the internet at the same time to arrive at a reasonable allocation rate to be applied throughout the period of time where you were working principally from home. See *Example 2* in the Appendix.

To the extent that you upgraded to a higher internet speed to handle video calls, it could be contended that the cost of the upgrade from one level of service to another is fully attributed to business use. It is important to maintain information in relation to the manner in how the allocation between business and personal use was determined.

## Office Supplies

Based on legislation and CRA Policy announcements as at January 18,2022

Employees are also able to claim a deduction for the cost of office supplies and expenses that are used directly in the performance of employment duties and for which no reimbursement has been made by the University.

Common office supplies that are deductible include:

- Stationery items, such as pens, pencils, toner, ink cartridges, paperclips, charts, and stamps
- Long distance telephone calls incurred for work purposes
- Cell phone airtime charges incurred for work purposes

Capital expenditures of office equipment and furniture (such as computers or printers) are not deductible. The CRA's view is that employees generally cannot deduct the following: calculators, briefcases, monitors, computers, office furniture, and small equipment (e.g. webcams, keyboards, etc.)

## Documentation

### Employers – Form T2200S

Form T2200S is used for employees to claim the actual amount of home office expenses and office supplies incurred in 2021 tax year due to the COVID-19 pandemic.

### Employees – Form T777S

Form T777S should be filed by employees to claim home office expenses and office supplies under **both simplified method and detailed method**.

## Expense Deduction Example

The following example is used to illustrate how to determine and claim home office expenses and office supplies incurred during the period in which you were required to work from home in 2021.

*Judy worked from home for 12 months (from January 01 to December 31) in 2021 and has incurred the following expenses and retained the associated receipts related to her remote work arrangement:*

- *A new office computer monitor for \$140 (tax included);*
- *Stationery supplies such as printer ink, toner, and pens for \$105 (tax included);*
- *Business usage of cell phone costs of \$350;*
- *Rent on her apartment of \$900/month, of which 11% is considered to be her home office based on the percentage calculated below in Example 2*

## Result

1. The cost of the monitor of \$140 will not be deductible as a home office supply as it is a capital item.
2. Stationery supplies of \$105 are deductible if used directly for employment activity. Judy may claim \$105 as a home office supply on Form T777S.
3. Business usage cell phone costs of \$350 are deductible as a home office supply on Form T777S of Judy's income tax return.
4. Rent cost of \$940.50 is deductible as a home office expense ( $\$900 \times 12 \text{ months} \times 11\%$ ) on Form T777S of her income tax return.

Based on legislation and CRA Policy announcements as at January 18,2022

## Appendix

### **Example 1 – Simplified method**

*Jack worked from home from April 1 to May 31, 2021, due to COVID-19. During these months he worked exclusively from home and performed all his normal work duties from home. Jack went back to the office full-time on June 1, 2021 but worked from home for five days in each of June, July and August.*

**Result** – because Jack worked more than 50% of the time from home for a period of at least four consecutive weeks in 2021 due to COVID-19, he is eligible to claim expenses related to his workspace in 2021.

If Jack chooses to use the temporary flat rate method, he can claim home office expenses for the 43 workdays worked from home for April and May, plus the 15 workdays worked from home for June, July and August for a total of 58 days. Jack would make this claim on Form T777S upon filing his 2021 income tax return and enter the amount of \$116 (58 days x \$2) into line 9939 on Form T777S.

### **Example 2 – Workspace determination & Internet cost allocation**

*Judy uses the kitchen area of her apartment as her home office which represents approximately 20% of the total square footage of her apartment. Judy works approximately 35 hours per week in this area and estimates that the kitchen is used for approximately 28 hours for personal use for the preparation and consumption of meals. The overnight hours or hours where the kitchen is not used are not included as these represent common use time.*

*Judy has incurred home internet costs of \$125/mo. She has tracked her usage of the internet for a two-week period on a daily basis and determined on a weekly basis she works and uses the internet 35 hours/week and watches Netflix or uses the internet for personal use for 12 hours/week.*

**Result** – based on these facts, Judy is considered to use the kitchen area as a workspace at a ratio of approximately 11%.  $((35 / (35 + 28)) \times 20\%)$ .

Therefore, if Judy paid \$900/month in rent and worked primarily from home from January 01 until December 31, she would be eligible to claim 11% of this monthly rent expense for the 12 months spent working from home. This would result in an eligible deduction of reasonable rent expense of \$940.50  $(\$900 \times 12 \text{ months}) \times 11\%$ .

In addition, the business portion use of home internet is estimated to be 75%  $(35 \text{ hrs} / (35 \text{ hrs} + 12 \text{ hrs}))$ . This would result in an eligible deduction of \$93.75  $(\$125 \times 75\%)$  of the home internet cost.

Overall, Judy would be eligible to claim a deductible workspace expense of 1281.75

Note – The CRA indicates on Form T777S that the denominator in the calculation above would be the total hours during the week (24x7=168) as opposed to the time the area was used. This would lower the eligible claim rate from 12% in the example above to 2.8%.

The CRA Example also included the cost of home internet cost with the cost of other utilities and thus applied the space factor to the workspace to determine the deductible internet cost. This would result in a substantially lower deduction for home internet cost as a separate allocation method for home internet cost based on the measurable usage of this service was not considered.

We do not believe it is reasonable to include the overnight hours where the shared workspace is not being used for either personal or business use and would contend the method outlined in the example is fair and reasonable based on jurisprudence under the law.

In addition, we do not believe it is reasonable to apply a workspace area % to the use of home internet costs as this is not reflective of use of the service. We believe that measuring the actual use of internet through a measurement of time of usage would produce a result is fair and reasonable based on jurisprudence under the law.

In a webinar hosted by the CRA on December 17, 2020, when a question was asked about the method of allocation, the CRA's comment was that a "fair and reasonable" method would be acceptable.

Based on legislation and CRA Policy announcements as at January 18,2022