

TAX TALK

HOME OFFICE EXPENSES FOR THE 2020 TAX YEAR

As an employee, there are certain circumstances where you may be able to claim a deduction for home office expenses on your individual income tax return. New for 2020, there is an additional method that eligible employees can use to claim home office expenses. This new method, the **Temporary Flat Rate Method**, is only available for the 2020 tax year. The existing **Detailed Method** continues to be an option and eligible employees can choose whichever method that provides them with the higher tax deduction.

Temporary Flat Rate Method

This new method will help simplify home office expense claims if the employee is eligible to make the claim.

Eligibility

- Worked more than 50% of the time from home for a period of at least four consecutive weeks in 2020;
- You are only claiming home office expenses and not any other employment expenses; and
- You were not reimbursed by your employer for all your deductible home office expenses.

How the deduction is determined

- The deduction is calculated as a \$2 per day for each day the eligible employee worked from home in 2020, up to a maximum of \$400 (200 working days) per individual. Multiple people working from the same home can each make a claim.
- Days that are counted towards the claim include any days an employee worked full time or part time from home. Days that do not count towards the deduction include days off, vacation days, sick leave days, and any other leaves of absence.

Supporting documents and information required

- No supporting documents are required.
- An advantage for making a claim under the Temporary Method is that employees are **not** required to track expenses, calculate work space measurements, or keep receipts.
- Employees are also **not** required to obtain Form T2200 (or the new T2200S) from their employers, which must normally be obtained as support to prove that they were required to work from home as a condition of their employment.

Detailed Method

Employees may instead choose to deduct home office expenses using the detailed method for 2020.

Eligibility

You are eligible to claim a deduction for home office expenses for the period you worked from home, if you meet **ALL** of the criteria:

- You worked from home in 2020 due to COVID-19 pandemic or your employer required you to work from home;
- You worked more than 50% of the time from home for a period of at least four consecutive weeks in 2020, or you only use your work space to earn employment income and it is used regularly and continually for meeting clients, or other people for work;
- The expenses are used directly in your work during the period; and
- Obtained a completed and signed Form T2200 or new Form T2200S from your employer.

How the deduction is determined

- Eligible employees can claim the employment portion of actual amounts paid. Common home office expenses may include the following:
 - o Office supplies (if required by employer)
 - o Cell phone (if required by employer)
 - o Utilities (i.e. electricity, heat, water)
 - o Rent paid for house or apartment where you live
 - o Internet
 - o Property taxes (commissioned employees only)
 - o Home insurance (commissioned employees only)
- The portion of the work space used for employment purposes compared to the total finished area of their home (square footage) is used as a basis for calculating the employment portion of the home office expenses.

Supporting documents and information required

- Employees are required to track their expenses and keep receipts in case the CRA requests to review them at a later point.
- Employees will need to obtain from their employer a signed Form T2200 (or the new T2200S) in order to make a claim under the detailed method.
- The new Form T2200S is a shorted version of the T2200 that employees can use who wish to claim home office expenses under the detailed method. However, the T2200S cannot be used if the employee is making a claim for any other employment expenses, such as motor vehicle expenses and or if they were eligible for home office expenses prior to the COVID-19 crises.

Which Method to Use?

Determining which method to use should be done on a case-by-case basis. However, the following comments may help provide some high level guidance to determine which method to file under.

1. Do you rent your house?

Using the detailed method would likely be most beneficial to employees who rent their home. Renters are able to allocate a portion of their rental payments paid to claim eligible home office expenses (typically pro-rated based on square footage of office space used in home to total square footage of home).

For example, if an taxpayer worked from for 9½ months (or 200 days) due to COVID-19, had monthly rent of \$2,000 and the work space represents 20% of the total square footage of the apartment, the detailed method for expense deductions is the better choice.

- Under the detailed method, the home office expense deduction on the rent expense alone would be \$3,800 (20% x \$2,000 rent per month x 9½ months), which is greater than the \$400 maximum under the new temporary flat rate method.

Remember, if the detailed method is used, the employee needs to obtain a signed T2200S or T2200 from their employer and track their expenses and receipts. CRA may ask for supporting documentation to support claim filed under the detail method.

2. Do you own your home?

If your eligible home office expenses are limited to utilities and internet, then your prorated costs may be closer to the actual \$2/day maximum \$400 claim. You may want to estimate the deduction under both methods to see if the detailed method gives you a higher deduction.

3. Do you qualify under one method but not the other?

Employees may be eligible for additional employment expenses, such as automobile expenses and, therefore, must use the detailed method, as the simplified method is not permitted if any other employment expenses are claimed other than home office expenses.

Frequently Asked Questions

Q1. How does the home office expense affect your tax return?

A1. The home office expense is claimed as a deduction and reduces your taxable income used to calculate your tax. The benefit of the deduction will depend on your marginal tax rate. If you are taxable at the highest marginal rate (53.53%), then a \$400 deduction will have the impact of saving you \$214 in tax.

Q2. My employer did not require me to work from home. Can I still claim the home office expenses?

A2. Yes. If you were not required to work from home, but your employer provided you with the choice to work at home due to COVID-19 pandemic, CRA will consider you to have worked from home due to COVID-19.

Q3. I am claiming home office expenses under the new temporary flat rate method; can I also claim other employment expenses?

A3. No. Employees who want to claim other employment expenses, such as employment related automobile expenses, must use the detailed method and obtain a signed and complete T2200 or T220S from their employer.

Q4. My employer has reimbursed me for some of my home office expenses. Can I still use the temporary flat rate method?

A4. Yes, you can still use the temporary flat rate method. The CRA has confirmed that the employee cannot claim any expenses that were or will be reimbursed by the employer. However, they can claim the portion of the eligible expenses that were not reimbursed.

Q5. How do I claim a deduction for my home office expenses on my 2020 income tax return?

A5. Complete Form T777S, Statement of Employment Expenses for Working at Home Due to COVID-19. If you have other types of employment expenses, do not use this form and instead use Form T777, Statement of Employment Expenses. In either case, you should obtain a signed T2200, Declarations of Conditions of Employment from your employer.

A memorandum of this nature cannot be all-encompassing and is not intended to replace professional advice. Its purpose is to highlight tax planning possibilities and identify areas of possible concern. Anyone wishing to discuss the contents or to make any comments or suggestions about this TaxTalk is invited to contact one of our offices.

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