

# Deduction of Home Office Expenses for 2020

## Frequently Asked Questions

***McMaster is providing this general guidance and FAQ in support of employees and does not take any responsibility for the decision of an employee to make a deduction on their tax return. Any tax advice should come from your professional tax advisor.***

1. What is a “home office” and how to calculate the space of “home office”?
  - a. A “home office” refers to a room or space (referred to as the “work space”) within a self-contained domestic establishment, which can be your house, condo or apartment, either owned or rented. The work space could be areas such as your bedroom, kitchen or your dining room table.
  - b. The space of home office or work space (herein referred to interchangeably) is generally determined based on the square footage of the home office space as a percentage of the total square footage of floor space of all the finished areas within your home. To the extent that the work space 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 as noted in the following example.
  - c. Example: An employee uses the kitchen area of a rented apartment as a home office which represents approximately 20% of the total square footage of the apartment. The employee works approximately 40 hours per week in this area and estimates that the kitchen is used 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. Based on these facts, the employee is considered to use the kitchen area as a work space at a ratio of approximately 12%.  $((40/(40+28) \times 20\%))$ .

*Note: the example which the Canada Revenue Agency (“CRA”) refers to on Form T777S would contend that you should include all hours in the week, including overnight hours, such that the denominator in respect of the allocation of common use time in the example above would be 168 hours (24 hours x 7 days). 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. Therefore, a factor based on the time the space is actually being used would be considered fair and reasonable.*

2. I have set up a work space at home since COVID-19 started. Am I eligible to claim any home office expense?
  - a. To qualify for the deduction, you must have principally worked from home as a result of COVID-19 for a period of at least four consecutive weeks, or you have been using the work space exclusively to earn employment income on a regular and continuous basis for meeting customers or clients.
  - b. The employees who worked from home for at least four consecutive weeks in 2020 due to the COVID-19 pandemic would likely qualify. In a situation where you had 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.
  - c. McMaster will issue the Form T2200 “Declaration of Conditions of Employment” or Form T2200S “Declaration of Conditions of Employment for Working at Home Due to COVID-19” to eligible employees to confirm that you were required to work from home.
  
3. What type of home office expenses can I claim and how much can I claim?
  - a. If you are a home owner, you can claim the following expenses:
    - i. electricity
    - ii. heating
    - iii. maintenance costs, including:
      1. light bulbs
      2. cleaning materials
      3. minor repairs
    - iv. the portion of condominium fees that relate to utilities.
  - b. If you are a renter, you can claim the following expenses:
    - i. electricity
    - ii. heating
    - iii. maintenance costs, including:
      1. light bulbs
      2. cleaning materials
      3. minor repairs
    - iv. rental payments.

- c. Once the total amount of the above eligible expenses is determined, you would need to multiply that amount with the work space percentage estimated in #1 to get to the amount of deduction you are eligible to claim in respect of the home office expenses as noted in the following example.
  - d. Example: An employee paid \$900/month in rent and began working primarily from home on March 15 until December 31. As estimated in #1 example, the kitchen area was used as a work space at a ratio of approximately 12%. Therefore, the employee would be eligible to claim a deduction of \$1,026 rent expense ( $(\$900 \times 9.5 \text{ months}) \times 12\%$ ).
4. I heard about a simplified method that would allow a claim up to \$400. What is the difference between the simplified method and the detailed method?
- a. The simplified method is referred to by the CRA as the “temporary flat rate method” that allows an employee to claim up to \$400 home office related expenses in the 2020 tax year. As a contrast, the “detailed method” described above allows an employee to claim the actual eligible expenses that exceed \$400.
  - b. Employees would be eligible to use the simplified method if they worked more than 50% of the time from home for a period of at least four consecutive weeks in 2020 due to COVID-19.
  - c. Under this method, employees can claim \$2 for each day they worked from home during that period plus any additional days they worked from home in 2020 due to COVID-19. The maximum claim is \$400 (200 working days) per individual. Days that can be counted include days an employee worked full-time or part-time hours from home. Days that cannot be counted include days off, vacation days, sick leave days, and other leaves or absences. This method can only be used for the 2020 tax year.

*Note: upon using the simplified method, you cannot claim any other employment expenses (for example motor vehicle expenses).*

5. Both I and my spouse have been working from home due to the COVID-19 pandemic. Are we both allowed to claim home office expenses?
- a. If you are using the simplified method, each one of you can claim up to \$400.
  - b. If you are using the detailed method to claim the actual amount of home office expenses and shared a common work space area with each other, the ratio of work space should be split between you and your spouse.

6. Other than expenses related to the work space at home, can I claim office supplies?
- a. An employee can deduct supplies that are directly used in the course of employment. The following office supplies qualify as a home office expense:
    - i. long distance telephone calls, cellular airtime (also see #9) and home internet costs (also see #8) that reasonably relate to the earning of employment income; and
    - ii. stationery items, including writing utensils, paper clips, charts, stamps, toner, ink cartridges, street maps and directories.
  - b. Employees cannot deduct the following items as supplies:
    - i. the monthly basic service charge for a telephone line
    - ii. amounts paid to connect or license a cell phone
    - iii. special clothing for work
    - iv. safety gear
    - v. tools or equipment
    - vi. briefcases
    - vii. calculators.
7. I purchased office supplies and was reimbursed for the expense. Can I still claim a deduction?
- a. No. Deductible expenses that are reimbursed cannot also be claimed for deduction. This rule is equally applicable if you were reimbursed for any expenses related to work space in home.
8. Can I deduct my internet fees and how much can I claim?
- a. Yes, you can deduct the internet access fees (the cost of plan must be reasonable). You cannot claim connection fees, or the portion of fees related to the lease of a modem/router. Any portion of internet fees that were reimbursed through your professional development allowance cannot be deducted.
  - b. Consideration should be given to determining an appropriate method of internet cost allocation between personal use and employment use. Factors that can be considered include time usage (between personal use time and employment use time) and shared time among multiple family members.

*Note: currently, Form T777S indicates that the amount of internet costs that can be deducted should be calculated at the same work space ratio applied to other home office expenses such as utilities.*

*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. Therefore, a factor based on the time the internet is actually being used would be considered fair and reasonable.*

9. Can I deduct my cell phone fees?

- a. An employee can deduct the cost of a basic service plan (minutes/data) if it was incurred in the course of earning employment income, if the following conditions are met:
  - i. the cost of the plan is reasonable;
  - ii. the employee can substantiate the cellular minutes or data consumed directly in the performance of their employment duties (as well as the costs of the minutes or data); and
  - iii. the cost of the plan is apportioned between employment and personal use on a reasonable basis.
- b. An employee cannot deduct the cost of connecting or licensing a cell phone.

10. Can I deduct land-line phone expenses?

- a. The amount related to long distance telephone calls if made for work can be deducted.
- b. The monthly basic home phone rate is not deductible.

11. Is computer equipment deductible?

- a. No. Computer equipment is a capital expenditure, meaning it is not consumed in the course of employment. Only supplies directly consumed in the course of employment can be deducted.
- b. The above computer equipment includes, but is not limited to, laptops, monitors, printers, fax machines, and other small electronic equipment (such as keyboards, mouse, webcams).

12. I purchased new office furniture for my home office. Can I deduct these items?

- a. No. Employees cannot deduct the cost of office furniture, including desks, chairs, filing cabinets, lamps, and other ergonomic furniture. These are considered capital expenditures, which are never deductible.

13. I heard that I could claim the GST/HST rebate separately from the home office expenses on my income tax return. How would I know if I am eligible to do so? What is the benefit of claiming the rebate separately?
- a. You are eligible for a rebate of GST/HST paid on home office expenses since the University as the employer is GST/HST registrant.
  - b. When you choose to claim the rebate, the full amount of GST/HST you paid on home office expenses would be returned to you. If you claim the gross amount of home office expenses, the amount of tax saving of on such deduction will be factored by the income tax rate you are subject to.
14. What forms do I need to claim home office expenses in 2020?
- a. If you are using the simplified method, you would need to make a claim up to \$400 using Form T777S upon filing your personal income tax return.
  - b. If you are using the detailed method and only need to claim expenses related to home office and office supplies, you would need to obtain a signed T2200S and make such claims using Form T777S upon filing your personal income tax return.
  - c. If you are using the detailed method and need to deduct employment expenses beyond claims related to home office and office supplies (e.g., motor vehicle expenses), you would need to obtain a signed Form T2200 and make such claims using Form T777 upon filing your personal income tax return.
15. Can I claim expenses on multiple T2200S forms issued by multiple employers?
- a. Yes, an employee can receive a T2200S from each employer they work for. However, only the expenses incurred for the period of time spent working for each employer is eligible for deduction. Therefore, the issuance of multiple Form T2200S's would not increase the amount of expenses which are eligible to be deducted, it would simply allocate the expenses incurred to the time worked for each employer during the year. All expenses would need to be prorated down to accurately represent the amount of time worked from home for each separate employer.

*The following discussion is related to eligibility of claims on expenses arising during COVID-19 working arrangements.*

16. Can I deduct any meal expenses incurred in the course of work?
  - a. Most likely no. Food and beverage expenses can only be deducted if the employee is required to work away from their municipality or metropolitan area where they normally report for work for at least 12 consecutive hours. Employees working from their home office who pay for meals likely do not satisfy these criteria. Even if you do satisfy these conditions, you can only deduct up to 50% of the cost of the expenses.
  
17. I periodically come into the office to work and pay for parking. Are my parking costs deductible?
  - a. It depends. Typically, employees have not been allowed to deduct parking expenses related to traveling from their home to the office. Daily or monthly parking passes are personal, rather than employment, costs. These expenses are not incurred in the course of earning employment income, so are non-deductible. However, a recent Tax Court of Canada decision found that expenses related to the drive between an employee's home office and employer's place of business, including parking fees, were deductible. The employee was required to perform 90% of her employment duties at her home office, and she did not have any office space at her employer's place of business. Employees in a similar situation may also be able to deduct their parking fees.
  
18. What documents should I keep in case I am audited?
  - a. It is the employee's responsibility to claim the expenses on their income tax return and to keep records to support the claim. Employees should keep documentation for every expense they want to deduct. Records can include receipts for items purchased, invoices, monthly bank or credit card statements. These records should be kept for at least six years. Employees must also retain the documentation to support the allocation of all cost categories that require allocation between employment and personal use along with any information used to arrive at the allocation percentage.
  
19. Do I need to provide any of my receipts to McMaster?
  - a. Form T2200/T2200S has been provided to certify that you have been required to work from home due to COVID-19 and that you were not be reimbursed for any home office expenses.
  - b. Each employee is fully responsible for the costs being deducted on their income tax return. You should carefully ensure that only eligible costs that are not reimbursed are claimed. This guide is being provided to assist employees but McMaster will not request copies of

receipts which you are deducting and will assume no risk if the claim is challenged by tax authorities and is altered or denied.

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