

Deduction of Home Office Expenses for 2020

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.

Background

As a result of COVID-19 pandemic, many of you have temporarily shifted to a "work from home" environment at the request or permission of McMaster University (the "University") and you may be considering whether it would be allowed to deduct certain home office expenses for workspaces and home office supplies on your 2020 personal income tax return.

We are providing this general guidance in support of employees who are considering claiming home office expenses incurred in 2020. 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 any responsibility with respect to the decision for an employee to make a deduction on their tax return. Any tax advice should come from your professional tax advisor.

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") 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 2020 tax year, under the CRA's new administrative policy, the employee may claim home office expenses using one of two different methods.

Option 1 – Simplified method

Employees who worked from home for more than 50% of the time for a period of at least four consecutive weeks in 2020 due to COVID-19 can claim \$2 for each day worked from home during that period plus any additional days they worked at home in 2020 due to the COVID-19 pandemic. The maximum claim allowed per individual is \$400 for the 2020 tax year. This may be done without the need to track detailed expenses, and for such claim, the employer will not be required to provide an authorized Form T2200/T2200S.

Under this method, employees do not have to calculate the size of their work space or keep supporting documents. 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.

Note that this method can only be used for the 2020 tax year and by using this method, the employee cannot claim any other employment expenses (for example motor vehicle expenses). It should also be noted that for those who have been working remotely from home since the beginning of the pandemic, calculating and claiming actual home office expenses may result in a higher deduction than claiming \$400. For further guidance on this method, see *Example 1* in the Appendix.

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 \$400, and thus chooses to claim the actual amount, in the 2020 tax year an authorized Form T2200 or 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. Note that the different purpose and use of T2200 and T2200S is addressed under the “Documentation” section.

To determine whether Form T2200/T2200S can be issued to an employee for the 2020 tax year, all of 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 2020 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 earning employment income (i.e. the employee needed a place to work from home to perform their employment duties – see detailed criteria under “Work Space 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 the home office expenses incurred can be claimed.

Work Space Expenses

For the 2020 tax year, an employee may only deduct workspace expenses to the extent that the work space meets one of the following conditions:

1. The workspace is the place where the employee principally (more than 50% of the time) performed employment duties for a period of at least four consecutive weeks, or
2. The employee used 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 University, condition #1 would apply to most employees.

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 ITA provides support that deductible work space 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
- The portion of condominium fees that relate to utilities (such as electricity, heat, and water)
- A reasonable portion of rent if the home is rented

Specifically excluded from the claim list for 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 are deductible.
- Costs that are directly incurred in relation to the work space may be fully deductible but cannot include items that are capital in nature. Thus, cleaning costs that are specific to the work space that is exclusively used as a work area would be deductible.
- Generally, the deduction of work space related costs must be apportioned to the area of the home that is used as a work space using a method that is considered reasonable.

Work Space 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. 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 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. 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 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 a business use. It is important to maintain information of how the allocation between business and personal use was determined.

Office Supplies

Employees are also able to claim a deduction for the cost they incurred for office supplies and expenses that are used directly in the performance of employment duties. Claims cannot be made for office supplies that were provided by the University or which have been reimbursed 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 and office furniture.

GST/HST Rebate

The University is a GST/HST registrant, so employees of the University may be able to claim a GST/HST rebate for the portion of work space expenses and home office supplies related to the employment activity. To qualify for this rebate, employees must complete and file Form GST370, "Employee and Partner GST/HST Rebate Application". See *Example 3* in the Appendix.

Employees can only file one Form GST370 for each calendar year and cannot claim a rebate for any expenses that have been previously rebated. Employees have up to four years from the end of the year to which the expenses relate to file an application.

Employer Reimbursements

Generally, allowances paid to employees from the University to purchase personal computer equipment to facilitate working from home are taxable benefits for employees. However, due to

COVID-19, the CRA has confirmed that reimbursements of an amount not exceeding \$500 for the purchase of personal computer equipment or office equipment by the University to an employee will be non-taxable.

In a webinar hosted by CPA Canada on October 28, 2020, the CRA indicated that employer reimbursements of up to \$500 of home office equipment such as desks or chairs will not be a taxable benefit, provided the equipment is needed for the employee to perform his/her duties of employment at home.

Documentation

Employers – Form T2200/T2200S

Form T2200S is used for employees to claim the actual amount of home office expenses (the detailed method) and office supplies incurred in the 2020 tax year due to the COVID-19 pandemic. Those who wish to claim other type of employment related expenses that are beyond the scope of home office expenses and office supplies such as motor vehicle expenses must obtain Form T2200.

Employees – Form T777/T777S

Form T777S should be filed by employees to claim home office expenses and office supplies under **both simplified method and detailed method**. Those who wish to claim employment expenses beyond the scope of home office expenses and office supplies such as motor vehicle expenses should file Form T777 with their income tax returns.

Employees – Form GST370

Employees that wish to claim a rebate for GST/HST paid on deductible home office expenses are required to file GST370 with their income tax returns.

Employees must retain receipts and any other records to support work space expenses and home office supplies for a period of six years from the end of the last tax year they relate to. Employees must also retain the signed Form T2200/T2200S in case they are requested by the tax authority to support the claim for work space expenses and home office supplies.

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 2020.

An employee worked from home for 9.5 months (from March 15 to December 31) in 2020 and has incurred the following expenses related to their remote work arrangement:

- *A new office chair for \$400 (tax included);*
- *A new office computer monitor for \$140 (tax included);*
- *Stationery supplies such as printer ink, toner, and pens for \$113 (tax included);*
- *Business usage of cell phone costs of \$350;*
- *The employer has a special home office equipment reimbursement policy in 2020 of up to \$500 of costs incurred to equip a home office;*
- *Apartment rent of \$900/month, of which 12% is considered to be a home office based on the percentage calculated below in Example 2*

Result

1. The employee should have the University reimburse for the chair (\$400) and \$100 of the cost of the computer monitor as the first \$500 of reimbursement is not a taxable benefit.
2. The excess cost of the monitor of \$40 will not be deductible as a home office supply as it is a capital item. If the employee receives no reimbursement for the monitor, no portion of the cost incurred is deductible as a capital item.
3. Stationery supplies of \$113 are deductible if used directly for employment activity. The employee may claim \$113 as a home office supply on Form T777S. Alternatively, \$100 may be claimed for stationery supplies on Form T777S and a \$13 HST rebate ($\$113 \times (13/113)$) claimed on Form GST370.
4. Business usage cell phone costs of \$350 are deductible as a home office supply on Form T777S. Alternatively, \$310 in cell phone costs may be claimed on Form T777S and a \$40 HST rebate claimed on Form GST370 for the tax paid on cell phone costs ($\$350 \times (13/113)$).
5. Rent cost of \$1,026 is deductible as a home office expense ($\$900 \times 9.5 \text{ months} \times 12\%$) on Form T777S. Residential rent is generally exempt from GST; thus, no amounts are included in the HST rebate calculation in relation to rent.

Appendix

Example 1 – Simplified method

An employee worked from home from April 1 to May 31, 2020 due to COVID-19. During these months all normal work duties were performed exclusively from home. The employee went back to the office full-time on June 1, 2020 but worked from home for five days in each of June, July and August.

Result– because the employee worked more than 50% of the time from home for a period of at least four consecutive weeks in 2020 due to COVID-19, they are eligible to claim expenses related to work space in 2020.

If the employee chooses to use the temporary flat rate method, home office expenses can be claimed 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. The employee would make this claim on Form T777S enter the amount of \$116 (58 days x \$2) into line 9939 on Form T777S.

Example 2 – Work space determination & internet cost allocation

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.

The employee has incurred home internet costs of \$125/mo. Tracking usage of the internet for a two-week period on a daily basis indicates that on a weekly basis work usage of the internet is 40 hours/week and Netflix is 20 hours/week.

Result– based on these facts, the is considered to use the kitchen area as a work space at a ratio of approximately 12%. $((40/(40+28) \times 20\%)$.

Therefore, if the employee paid \$900/month in rent and began working primarily from home on March 15 until December 31, 12% of this monthly rent expense for could be claimed the 9.5 months spent working from home. This would result in an eligible deduction of reasonable rent expense of \$1,026 $((\$900 \times 9.5 \text{ months}) \times 12\%)$.

In addition, the business portion use of home internet is estimated to be 67% (40hrs/(40hrs+20hrs)). This would result in an eligible deduction of \$84 of the home internet cost.

Overall, a deductible work space expense of \$1,110 could be claimed.

Note – The CRA indicates on Form T777S that the denominator in the work space 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 to 2.8%.

The CRA example also includes the cost of home internet cost with the cost of other utilities and thus applies the space factor to the work space 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.

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. The method outlined in the example is may be considered fair and reasonable based on jurisprudence under the law.

In addition, measuring the actual use of internet through a measurement of time of usage may produce a result that is fair and reasonable based on jurisprudence under the law.

Example 3 – HST Rebate

An employee paid \$113 (including HST) for deductible home office expenses claimed on the 2020 income tax return.

Result – as an employee of a GST/HST registrant, a rebate of the HST paid can be claimed by multiplying any deductible expenses by 13/113. In this case, the rebate is $\$113 \times (13/113) = \13 . The employee will then fill out Form GST370, attach a copy of the form to the income tax return and enter the amount claimed on line 45700 of the return. The deadline is December 31, 2024 to file the HST rebate application relating to that expense.

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.