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Deducting home office expenses for employees during the pandemic

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Many Canadian employees are working from home during the pandemic, to self-isolate and physically distance themselves from colleagues and clients. Many of them are hoping to obtain a tax deduction for the additional costs associated with working remotely from a home office. Unfortunately, the current tax rules allowing home office expenses as a deduction for employees are quite limited. Unless further legislative changes are made, many will be disappointed to learn that additional costs may not be tax deductible.

The Income Tax Act has very limited circumstances under which an employee may deduct expenses against their employment income. When it comes to home office expenses, an employee is entitled to deduct utilities (heating & electricity), maintenance, the cost of supplies and also rent. Unfortunately, employees who are homeowners are not entitled to deduct mortgage interest, property taxes, insurance or depreciation. There is an exception for employees who earn commission income, who are entitled to deduct home insurance and property taxes (but not mortgage interest). The deductible home office expenses are proportional to the space used in the home for work purposes.

Once an employee determines their eligible expenses, there are further criteria and restrictions that need to be considered before they can deduct those expenses. First, the employee is expected to pay out of pocket for these costs (without reimbursement) and the employer must validate these eligible expenses by providing the employee with a completed form T2200 “Declaration of Conditions of Employment”.

Second, the employee would need to meet one of the following *two* conditions:

1. The workspace is where the employee mainly (more than 50% of the time) does their work.
2. The employee uses the workspace exclusively to earn employment income, on a regular and continuous basis, for meeting clients, customers, or other people in the course of their employment duties.

The current pandemic has caused some concern in terms of how employees would meet either one of these tests. First, it is not clear how an employee would meet the “more than 50% of the time” in their home office test. For example, is this evaluated over an annual time frame, or would a two- or three-month time frame be enough to meet this test? Clearly, with the pandemic and stay-at-home orders, many employees could quite easily meet this test, if measured over a few months. However, uncertainty arises if the test is measured over a longer time frame.

Second, would online virtual meetings and conference calls meet the second condition? That is, in a situation where the employee uses their home office to meet with clients, customers or other people, using telephone and video conferencing tools, would this meet the requirements of the second condition? It is important to note that the CRA has indicated in the past, in a technical interpretation from 2013, that “meeting” customers, generally refers to face-to-face meetings, and not meetings by phone or video conference. Therefore, it appears to be the current position that meeting clients and conducting business virtually would not meet the second test.*

Given the current pandemic, physical distancing requirements and the need to be working from home, I suspect it is only a matter of time before these views will be challenged or reassessed. For employees looking to deduct home office expenses, be sure to speak to your employer first about completing Form T2200 and speak to a qualified tax advisor about your specific work circumstances, particularly during the pandemic.

* Source: 2013 CRA technical interpretation: document #: 2013-0481171E5 (E)

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