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Changes to employee home office deductions for 2020

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In June 2020, I wrote about the challenges Canadian employees have when claiming home office expenses under existing tax rules during the pandemic. Click here to read the June 2020 article.

In response to these challenges, the Department of Finance announced on December 3, 2020, that the Canada Revenue Agency will permit a simplified home office expense deduction for employees working from home in 2020 due to the pandemic. For 2020 only, a new temporary flat rate method is available, in addition to the traditional detailed method of claiming home office expenses.

The new temporary flat rate method

Under the new temporary flat rate method, employees may claim $2 per day they worked from home, up to a maximum of 200 days (or $400) per employee. To be eligible for the temporary flat rate method, employees must have:

1. Worked from home in 2020 due to the pandemic (either by choice or employer mandated);
2. Worked more than 50% of the time from home for at least four consecutive weeks in 2020;
3. Only claimed home expenses and no other employment expenses (such as motor vehicle); and
4. Not been fully reimbursed by their employer.

The benefit of the flat rate method is that employees do not need to keep track of expenses or keep supporting documents on file. No calculation is needed to determine the size of the workspace relative to the personal residence and there is no requirement to have the employer verify these expenses via the T2200 that is traditionally required for home office expenses.

The simplicity of this method and limiting the "more than 50% rule" to a 4-week period is attractive for many Canadians who traditionally are not eligible for home office deductions. The downside is that a $400 cap doesn't provide significant tax savings. Also, the current state of the pandemic still requires many employees to continue working from home in 2021 (and will likely do so for much of 2021 as vaccines are rolled out), so it's unclear at this point whether employees will be able to use the flat rate method for 2021 as well.

The detailed method

The detailed method is available if employees wish to claim the "actual" expenses they incurred as opposed to the daily flat rate. Eligibility for the detailed method is similar to the traditional rules for deducting home office expenses but it relaxes the 2020 qualifying criteria by requiring the employee to work at home at least 50% of the time for only four weeks (as opposed to the entire year). The list of eligible expenses has also been expanded to include such items as home internet access fees.

Under the detailed method, the employee would be required to obtain from the employer a completed T2200, or a revised shorter version if working from home because of the pandemic (T2200S), keep documents to support any claims that are made, as well as calculating a pro-rated amount of eligible expenses for tax purposes.

To learn more about the detailed method, click here to see my June 2020 article.

Workspace only expenses

Any eligible expenses incurred directly for the workspace only can be fully claimed as a deduction. For example, any minor repairs and maintenance related to the workspace, such as purchase of light bulbs, costs to repaint the workspace, or repairing drywall after the installation of network cabling or other office equipment required to work from home can be fully tax deductible.

Entire home expenses

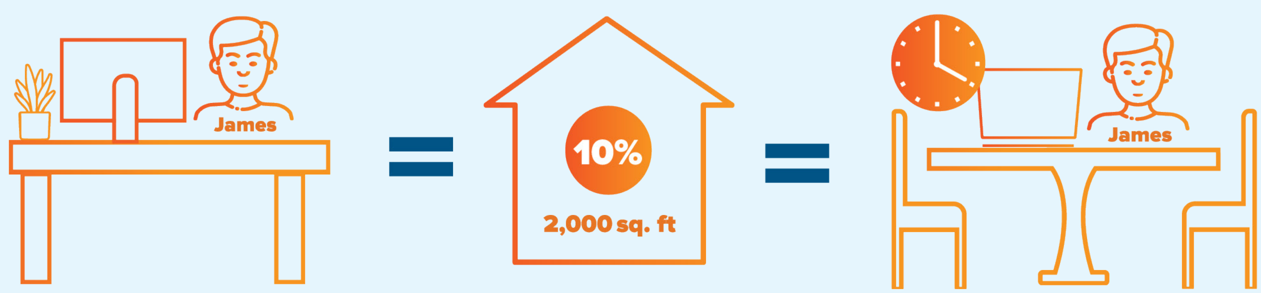
There are also several expenses that relate to the entire home, such as rent, electricity, internet fees, etc., that must be pro-rated between the personal use of the home and the employment use. Only the employment use is eligible for a deduction.

Where the employee has a designated area for employment, the pro-rated amount is based on the size of the designated area relative to the size of the home.

However, if there is no designated work area and the employee is instead using a common area, such as the kitchen table to perform their employment duties, then the pro-rated portion is also affected by the number of hours worked in the common area.

Example: Workspace vs. entire home expenses

Designated work area **VS.** **Non-designated work area**



James spent $4,000/month on home expenses, or $48,000/year
He uses 10% home exclusively as his home office.

James works in his dining room, which is 10% of his home
He logs 40 hours per week, or 24% of a week's 168 hours.

James can claim 10% of expenses

10% x $48,000 = $4,800

James can claim: **10% x 24% = 2.4%**

2.4% x $48,000 = $1,152

Conclusion

The new rules are welcome news for many Canadians working from home due to the pandemic. They bring clarity and additional tax relief for many who began working from home in 2020. However, the different methods available also highlight the importance of reviewing options with a tax advisor. It may be best to calculate your eligible tax deduction under both methods to determine whether the detailed method would entitle a deduction greater than the maximum $400 available under the temporary method. For employees who, for example, live in high rent cities such as Toronto or Vancouver, they may be better off to claim under the detailed method. Each case requires a careful review of all pertinent information to choose which method of claiming home office expenses is optimal.

Contact your financial advisor to discuss the best method for you to claim your home office expenses.

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