

HOME OFFICE EXPENSES – WHEN AND HOW TO CLAIM THEM

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The comments in this newsletter are general in nature. Readers are cautioned that tax laws change frequently. Professional advice is recommended for any particular situation.

Did you know almost 5 million Canadians started to work from home in 2020 due to the COVID-19 pandemic? Most Canadians have likely never claimed Home Office expenses before on their personal income tax return. But that's all about to change. Read on to see if you are eligible to claim Home Office expenses this year and, if so, what types of expenses you can claim.

First Step – Do you qualify to claim Home Office expenses?

There are two ways in which you can qualify to deduct Home Office expenses:

1. Your home is where > 50% of your work is performed **OR**
2. You have a dedicated space exclusively used to perform your work, and this space is used on a regular and continuous basis for meeting clients and performing your work duties

Typically the first test is easier to meet, especially in these COVID-19 times. You don't have to have a dedicated work office – you can use your kitchen or dining room table – so long as you work at least 50% of the time there. And you don't have to meet clients at home either.

You will, however, need a Form T2200 or T2200S signed by your employer (unless you choose to use the Temporary Flat Rate Method described below). These forms do not need to be filed with your income tax return, but they must be available should the Canada Revenue Agency (CRA) audit your claim.

Second Step – Do you choose the Temporary Flat Rate Method or the Detailed Method?

This is where the biggest change in the rules occurred. The Government recognized the need to update and simplify the Home Office expense rules due to COVID-19. There are now two different methods for claiming these expenses – the **Temporary Flat Rate Method** or the **Detailed Method**.

Temporary Flat Rate Method

For the tax year 2020 only (but hopefully extended to future years), the CRA announced a simplified method for claiming Home Office expenses - known as the *Temporary Flat Rate Method*. Under this method, if you worked from home due to COVID-19 for at least four consecutive weeks, you can claim \$2.00 per day for every day worked from home. Part days count as whole days. The maximum amount that can be claimed is \$400 per individual (200 days).

If both spouses work from home due to COVID-19, you can each claim up to \$400.

You do not need to calculate your work-space square footage, nor do you need to keep receipts. And your employer does NOT need to complete Form T2200 or T2200S.

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Under this method, you cannot claim any other employment-related expenses such as vehicle expenses, telephone expenses, or office supplies you've paid for.

Detailed Method

This method has been available for many years and has not changed. Under this method you can claim the following:

- A portion of your home expenses such as utilities (heat, hydro, water), general repairs & maintenance, and rent
- 100% of all office supplies paid by you and not reimbursed by your employer
- A portion of your home internet charges
- A portion of your cell phone charges – assuming you use your phone in your employment duties

You will need to keep all your receipts if you use the Detailed Method. You will also need to get Form T2200 or T2200S signed by your employer.

Form T2200S is a simplified form introduced for 2020 only. It can be used if you are only claiming Home Office expenses (including office supplies and telephone), and not other employment expenses such as vehicle costs.

Form T2200 is the traditional form and must be used if you plan to claim other employment expenses or are normally required to work from home (regardless of COVID-19).

Third Step – What expenses are deductible?

If you choose to claim home office expenses under the Temporary Flat Rate Method, you do not need to keep track of your expenses because you will be claiming \$2.00 per day worked from home. This \$2.00 per day is meant to capture all home-related expenses.

If you chose to claim expenses under the Detailed Method, you will need to keep all your receipts. The common types of expenses eligible to be claimed are:

- Hydro, gas and water costs
- Rent
- Office supplies (i.e.: paper, toner, ink cartridges, pens & pencils, calculators)
- General repairs & maintenance common to your house (i.e.: furnace repairs, a/c repairs, household cleaning products, general landscaping costs)
- Specific repairs related to your workspace (i.e.: painting, light bulbs)
- Monthly internet costs (excluding modem rental and set-up fees)
- Cell phone charges – related to your employment use
- Long-distance charges on your landline used for employment calls

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Conclusion

It may be prudent to request a signed Form T2200 or T2200S from your employer, even if you are not sure which method you'll use to claim Home Office expenses. You'll want to calculate your claim under both methods to see which one results in the larger deduction.

If the calculations result in similar-sized deductions, or you are averse to dealing with a potential CRA audit, the Temporary Flat Rate Method may be your better choice.

It will be interesting to see how many Home Office expense claims are audited for the tax year 2020.

