



Home-office expenses: COVID-19 edition

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With millions of employees working from home as a result of the COVID-19 pandemic, the question on many employees' minds is whether they can deduct various home-office expenses from their 2020 income this coming tax season. In addition, some employees who received a technology allowance or reimbursement from their employers to upgrade their home computer equipment are also wondering whether they will have to include this amount in their 2020 income as a taxable employment benefit.

Under the *Income Tax Act*, employees who are required to pay for employment expenses that are not reimbursed by their employer, including those for a home office, may be able to claim a deduction on their return for such expenses. For a valid claim, employees traditionally had to obtain from their employer a properly completed and signed Canada Revenue Agency (CRA) Form T2200, *Declaration of Conditions of Employment*.

In its November 2020 Fall Economic Statement¹, the federal government outlined simplified procedures for claiming home-office expenses for employees who were required to work from home due to COVID-19 and recently provided details of these procedures.²

Let's review the tax deductibility of home-office expenses as well as the taxability of employer-provided technology allowances and reimbursements in light of the current environment, when employees are being required by their employers to work from home and abide by the government's rules around social distancing.

Requirements to claim home-office expenses

To be entitled to deduct home-office expenses, an employee must be "required by the contract of employment" to maintain such an office, as certified by the employer on form T2200. The CRA has confirmed that, for 2020, the requirement to maintain a home office need not be part of the contract of employment, and it will be sufficient if there is a verbal or written agreement. It will also be sufficient if the employee worked from home because of the COVID-19 pandemic, including the situation where the employee was provided with a choice to work from home.

Traditionally, the home work space must be either where the employee "principally" (more than 50 per cent of the time) performs her duties of employment or be used exclusively to meet customers on a regular and continuous basis in the course of employment. The CRA has clarified that this first condition will be satisfied in 2020 if an employee worked more than 50% of the time from home for at least four consecutive weeks.

Two methods for 2020

For the 2020 tax year, the CRA is allowing employees to choose either the temporary flat rate method or the detailed method to calculate and claim home-office expenses. Let's review each one.

¹ See our report "Fall Economic Statement 2020 – Tax measures" at cibc.com/content/dam/personal_banking/advice_centre/tax-savings/fall-economic-statement-en.pdf.

² See "Introducing a simplified process for claiming the home office expenses for Canadians working from home due to the COVID-19 pandemic" at canada.ca/en/revenue-agency/news/2020/12/introducing-a-simplified-process-for-claiming-the-home-office-expenses-for-canadians-working-from-home-due-to-the-covid-19-pandemic.html.

Temporary flat rate method

If the temporary flat rate method is chosen, employees won't need to track expenses, or allocate some expenses between work and personal use. Instead, they can simply claim \$2 for each day they worked from home due to the COVID-19 pandemic, up to a maximum of \$400 (for 200 working days), per individual. Multiple people working from the same home can each make a claim.

All days worked from home, either full-time or part-time, count. Vacation days, sick days or any other days that an employee is on a leave of absence do not.

Employees need to complete CRA Form T777S - Statement of Employment Expenses for Working at Home Due to COVID-19, and attach the form to their 2020 income tax return. Employees will not be required to obtain a CRA Form T2200 from their employer when the temporary flat rate method is used.

Note that this method cannot be used if the employee is claiming any other employment expenses, such as automobile expenses. Instead, these employees should use the detailed method.

Detailed method

If the detailed method is chosen, an employee must calculate all expenses that are eligible for the home office expense deduction. Where there's a mixed personal and work element to an expense, the employee may only claim the portion of the expense that can be reasonably allocated to employment use. Employees who worked from home for only part of 2020 can only claim expenses paid for the part of the year that they worked from home.

To claim home office expenses under the detailed method, employees will be required to complete either CRA Form T777³ or T777S *and file it with their income tax returns*. The employee must also obtain a signed Form T2200S Declaration of Conditions of Employment for Working at Home Due to COVID-19 from their employer.⁴ This form is shorter and requires less information than the T2200 form that was required in previous years. The employee is not required to attach this form to their tax return, but must keep it in case the CRA asks to review it.

What home-office expenses can be claimed?

Employees choosing the detailed method will be able to claim a variety of expenses, such as the cost of utilities, rent, maintenance and minor repair costs, but can't deduct mortgage interest, property taxes, home insurance, capital expenses or depreciation (capital cost allowance). That means the cost of a new, ergonomic office chair won't be deductible, nor would the cost of a large, widescreen monitor, both of which would be considered capital expenses. The CRA is now, however, permitting home internet access fees to be deducted (but not internet connection fees or leasing costs associated with a modem or router.) The cost of many office supplies, such as envelopes, paper, pens and sticky notes, are also deductible.

For utilities, rent and other expenses, employees need to allocate the expenses on a "reasonable basis" to determine the portion related to employment use. This is typically done by taking the area of the work space divided by the total finished area (including hallways, bathrooms, kitchens, etc.) of the home. For 2020, the CRA has introduced an online calculator that can be used by employees to determine the appropriate claim for home office expenses.⁵

An employee can claim home office expenses using the detailed method even if they were reimbursed by their employer for some of their expenses. They cannot, however, claim a deduction for any expenses that were (or will be) reimbursed by their employer, as explained below.

³ If you claim additional employment expenses "Form T777 – Statement of Employment Expenses" is to be used. This form will be available for the 2020 tax year on January 18, 2021.

⁴ Where an employee is required to pay for expenses other than home office expenses, "Form T2200 – Declaration of Conditions of Employment" must instead be used.

⁵ CRA's calculator to determine the employment-use amounts to enter on Form T777S can be found online at canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/line-229-other-employment-expenses/work-space-home-expenses/calculate-expenses.html.

Technology allowances and reimbursements

To facilitate working from home during the pandemic, some employers have given their employees a technology allowance, which can be used to cover expenses such as upgrading home computers, buying webcams or investing in better headsets to facilitate Zoom meetings. Other employers may be simply reimbursing their employees for such purchases.

An allowance and reimbursement are similar, but the main difference is that with the former there is generally no direct, dollar-for-dollar relationship between the allowance paid and the actual costs incurred by the employee.

In April 2020, the CRA issued a technical interpretation dealing with employee taxable benefits that employees may have received as a result of having to now work from home due to COVID-19. The CRA was asked whether an allowance paid by an employer to an employee for the purpose of acquiring equipment to enable them to work from home would be considered a taxable benefit to the employee. The CRA was also asked whether its response would be different if the amount paid by the employer is conditional on a proof of purchase being submitted by the employee.

The CRA indicated that a general allowance paid to an employee would be considered a taxable benefit but that, in the context of the COVID-19 pandemic, the CRA would be “prepared to accept that the reimbursement, of an amount of up to \$500 (if a supporting receipt is provided)” for the purchase of personal computer equipment “to enable the employee to immediately and properly perform his or her work duties, primarily benefits the employer”, and will not be a taxable benefit.

At the Canadian Tax Foundation roundtable session held in October 2020, the CRA was first asked whether the \$500 reimbursement amount would be increased. The CRA stated that there are no current plans to increase the \$500 reimbursement amount, but that it would “continue to carefully monitor all developments relating to the COVID-19 pandemic and will take further action as necessary.”

The CRA was then asked whether its position on the amount reimbursed for the purchase of personal computer equipment would be expanded to include the purchase of home office furniture, such as desks, chairs and so forth. At the roundtable, the CRA announced that it was extending its administrative position to employer reimbursements for home office equipment purchased by employees.

It also clarified that the \$500 reimbursement amount is the maximum for each employee, rather than for each piece of computer or office equipment that an employee may purchase. For example, if an employee purchases a large-screen monitor for \$400 and an office chair for \$250, the employer can reimburse the employee up to \$500 without the employee receiving a taxable benefit under the CRA’s new administrative position. If, however, the employer chooses to reimburse the employee for the full \$650, the amount over \$500 (that is, \$150) would have to be included in the employee’s income.

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