Tax filing in the age of COVID

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Unlike last year's tax season, this year there is no extension to the tax filing deadline. 2020 tax returns for most individuals must be filed by April 30, 2021, or a late-filing penalty may be imposed. Those who are self-employed, or who are the spouse or common-law partner of someone who is self-employed, have until June 30, 2021 to file. Due to the COVID-19 pandemic, there are some considerations that are specific to the 2020 tax season. This report will review some of these items that may apply to you or your family members.

2020 income tax rates

Income tax is levied at graduated, "progressive" rates, such that higher tax rates apply as your income level increases. Figure 1 shows the federal tax rates that apply to various levels of taxable income.

Figure 1: Federal tax rates for 2020 and 2021

2020 taxable income	2020 federal tax rate	2021 taxable income	2021 federal tax rate
≤ $48,535	15.0%	≤ $49,020	15.0%
> $48,535 and ≤ $97,069	20.5%	> $49,020 and ≤ $98,040	20.5%
> $97,069 and ≤ $150,473	26.0%	> $98,040 and ≤ $151,978	26.0%
> $150,473 and ≤ $214,368	29.0%	> $151,978 and ≤ $216,511	29.0%
> $214,368	33.0%	> $216,511	33.0%

Filing your 2020 tax return

With physical distancing still expected to be the norm in much of Canada this filing season, the Canada Revenue Agency ("CRA") is encouraging you to file your tax return online to get any refund for which you may be eligible faster, avoid delays, and reduce your potential exposure to COVID. If you file online and you are signed up for direct deposit, you can get your refund in as little as eight business days. Last year, the CRA received approximately 90% of tax returns electronically.

You can also sign up for the CRA's My Account[1], to view and manage your tax and benefit information online. Still prefer paper? If you filed a paper return last year, the CRA will mail you the 2020 income tax package. You can view and download (or order paper copies of) the income tax forms and schedules online[2].

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1 CRA's My Account can be found online at canada.ca/en/revenue-agency/services/e-services/e-services-individuals/account-individuals.html.

2 You can find the income tax forms and schedules online at canada.ca/en/revenue-agency/services/forms-publications/tax-packages-years/general-income-tax-benefit-package.html.

COVID-19 Benefits

Personal benefits

If you're one of the millions of Canadians that received COVID-related government benefits in 2020, you need to report most of these amounts on your 2020 return.[3] Reportable amounts include: the Canada Emergency Response Benefit (CERB), Canada Emergency Student Benefit (CESB), Canada Recovery Benefit (CRB), Canada Recovery Sickness Benefit (CRSB), and the Canada Recovery Caregiving Benefit (CRCB), all of which are considered taxable income and should be reported on Line 13000 - Other income.

You will have received a T4A (for benefits issued by the Canada Revenue Agency ("CRA")) and/or a T4E (for benefits issued by Service Canada) tax slip in the mail with the information you need for your tax return. You can also view these tax slips online in the CRA's My Account. Residents of Quebec will receive also receive an RL-1 and/or T4EQ slip for their Quebec tax returns.

Each COVID benefit has its own box number (Box 197 to 204) on the T4A slip. If you received more than one benefit in 2020, you can confirm that the amounts are correct in the "COVID-19 Support Payment Application Details" using the CRA's My Account.

The government also delivered a number of one-time payments in 2020, including a one-time GST/HST credit payment, the one-time OAS pension ($300) and GIS payments ($200), and a one-time payment to persons with disabilities (up to $600). These amounts are all tax-free and should not to be reported on the 2020 return.

Tax owing

Depending on your total 2020 income, you may owe some tax on any COVID benefits you received. This is particularly true if you received the CERB or CESB, since no tax was withheld when payments were made.

If you received the CRB, CRSB, or CRCB, 10% tax was withheld from payments made, but this may not be sufficient to cover taxes ultimately owing on those benefits, depending on what other income you earned in 2020. You can find the income tax deducted at source in Box 022 of your T4A slip, which should be included on line 43700 - Total income tax deducted.

Repaying some benefits

You may have received the CRB or CERB, and subsequently returned all or part of the benefit should you have subsequently realized that you were not in fact eligible. If the amount was returned by December 31, 2020, then the returned portion need not be included in your 2020 income. In fact, you should not receive a T4A for any amounts returned by this date.

If, however, you return a benefit in 2021, you will need to pay tax on the full amount you received in 2020, and can claim a deduction for this amount on your 2021 tax return. While for many, this is simply a cashflow or timing difference, for others, who many not have enough income in 2021 to benefit from the deduction, you could end up effectively paying tax on funds you ultimately had to return.

If your 2020 net income was over $38,000, you may have to repay 50% of CRB benefits for every dollar in net income you earned above $38,000, to a maximum of the CRB received in the year. Net income for this purpose is line 23600 of the T1 return (with some minor adjustments), and includes any CERB, CRSB and CRCB payments received (but not payments received through the CRB.)

Business benefits

If you are self-employed (in other words, operate as an unincorporated sole proprietor), you may have received a loan through the Canada Emergency Business Account ("CEBA".)[4] The CEBA provides interest-free loans of

[3] Further details about these benefits can be found in our report "Personal tax measures: Canada's COVID-19 response plan" which can be found online at cibc.com/content/dam/personal_banking/advice_centre/tax-savings/covid-tax-en.pdf.

[4] Further information on CEBA can be found in our report "Canada Emergency Business Account (CEBA) Loans: Tax Consequences" which can be found online at cibc.com/content/dam/personal_banking/advice_centre/tax-savings/ceba-tax-en.pdf.

up to $60,000[5] to businesses to help cover their operating costs where their revenues have been temporarily reduced due to the economic impacts of COVID.[6] Up to $20,000[7] of a $60,000 loan can be forgiven if the balance is repaid by December 31, 2022.

The CRA has confirmed that the amount that is forgivable is taxable in the year that the loan is received. For instance, if a business receives a $40,000 CEBA loan in 2020, $10,000 must be included in income in 2020. Alternatively, a business could elect to not include the $10,000 in income, and instead to reduce $10,000 of non-deferable operational expenses in respect of which the CEBA loan was received. If a CEBA loan balance is not repaid by December 31, 2022, so that the forgivable portion is not forgiven, an offsetting deduction is available in the tax year in which the amount is repaid.

Limited relief for interest charges

Targeted interest relief will be available to Canadians who received COVID-related income support benefits. Once you've filed your 2020 income tax return, if you qualify, you won't be charged interest on any outstanding income tax debt for the 2020 tax year until April 30, 2022, giving you more time and flexibility to pay if you have an amount owing.

To qualify for this targeted interest relief, you must have had a total taxable income of $75,000 or less in 2020 and have received income support in 2020 through one or more of the COVID-19 measures: the CERB, CESB, CRB, CRCB, CRSB, Employment Insurance benefits or similar provincial emergency benefits.

If you fall into this category and decide not to pay the income tax owing, you don't need to do a thing other than file your return, as the CRA[8] will automatically apply the interest relief measure for taxpayers who meet these criteria. You must pay the deferred income tax by April 30, 2022 in order not to incur interest on the income tax debt.

Home office expense deduction

Under the *Income Tax Act*, an employee who is required to pay for employment expenses, including expenses for a home office, for which they are not reimbursed by their employer, may be able to claim a deduction on their return for such expenses. Specific guidelines have been set out by the CRA for claiming home office expenses in 2020, making it easier for employees who have been working from home as a result of COVID-19 to claim these expenses on their 2020 personal tax returns. There are two distinct methods of claiming home office expenses for 2020: the new "temporary flat rate method," and the "detailed method."[9]

Under either method, you will need to have worked from home as an employee for more than 50% of the time over a period of at least four consecutive weeks in 2020 to qualify for the home office expense deduction.[10] You will also need to complete Form T777S - *Statement of Employment Expenses for Working at Home Due to COVID-19* [11] and attach the form to your tax return. In some cases where other employment expenses are claimed, a more detailed Form T777 – *Statement of Employment Expenses* will be required instead.

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5 The original CEBA loan available was up to $40,000 but, as of December 4, 2020, an additional $20,000 CEBA loan became available to qualified applicants, for a total of up to $60,000. Many who previously received a $40,000 loan could apply for an additional $20,000.

6 A CEBA loan may also be received by an incorporated business.

7 For original loans of $40,000, 25% of the amount (up to $10,000) may be forgiven.

8 For Quebec residents, Revenu Quebec will also automatically be applying this measure.

9 Further information for claiming home office expenses in 2020 can be found in our report "Home-office expenses: COVID-10 edition" which can be found online at cibc.com/content/dam/personal_banking/advice_centre/tax-savings/home-office-expenses-en.pdf.

10 Where the detailed method is chosen, and the work space is used exclusively to earn employment income, and is used regularly to meet clients or customers, then the requirement for a four week consecutive period is not required.

11 Quebec residents must also use TP-59,S-V, *Expenses Related to Working Remotely Because of the COVID-19 Pandemic* for their provincial returns.

Temporary flat rate method

You are eligible to use this new method if you worked from home for the required four week period due to COVID. This requirement will be satisfied even if you chose to work from home because of COVID. Under this method, you simply claim $2 for each day you worked from home, up to a maximum of $400 (that is, $2/day for up to 200 working days) per individual.

More than one family member working from home? Each individual working from home can use the temporary flat rate method to calculate their deduction for home office expenses and can each make a separate claim for up to $400.

The benefits of using this method are that you do not have track and keep any supporting documents to track your expenses nor do you have to allocate any expenses between employment and personal use. In addition, you don't need a signed Form T2200S *Declaration of Conditions of Employment for Working at Home Due to COVID-19* ("T2200S")[12] from your employer.

Detailed method

Under the detailed method, you must have worked from home for the required four week period either because of COVID-19, including you having chosen to work from home. Alternatively, your employer could have simply required you to work from home, whether or not related to COVID-19, and this requirement need not be in writing. In addition, you must work at the space more than 50% of the time, or use it exclusively for work and regularly for meeting clients or customers. You must also have a completed and signed Form T2200S[13] from your employer, although you need not attach this form to your tax return.

If you choose the detailed method, you're able to deduct a variety of expenses, such as the cost of rent, electricity, heating, home internet access fees, water, as well as maintenance and minor repair costs. Commissioned employees can also deduct home insurance, property taxes and leasing costs associated with a cell phone, computer, laptop, tablet, fax machine, etc. that reasonably relate to earning commission income. Of note, however, no employees can deduct mortgage interest nor capital expenses or depreciation (capital cost allowance), meaning you can't deduct that new ergonomic chair, widescreen monitor or headset.

Where there's a mixed personal and work element to an expense, you can only claim the portion of the expense that can be reasonably allocated to employment use. For utilities, rent and other expenses, you need to allocate the expenses on a "reasonable basis," which is typically done by taking the area of your work space, divided by the total finished area (including hallways, bathrooms, kitchens, etc.) of your home.

In addition to home office expenses, the CRA has provided a list of 59 common home office supplies[14], detailing which expenses are deductible (for example, envelopes, folders, paper clips, highlighters, ink cartridges, etc.) and which expenses are not deductible (for example, printers, webcams or house-plants).

Which method to choose?

While at first glance, $2 per day may seem like a pretty small amount to claim as a home office expense, for employees who own their home rather than rent, it is likely more generous (and simpler!) than using actual pro-rated, expenses.

For example, say Orlando is a homeowner who has been working from home since March 16, 2020. He works at his dining room table, where his dining room accounts for 20% of the total square footage of his house. Since his dining room is not used only for work, he must also consider the percentage of the employment use of the space should he calculate the permitted deduction available using the detailed method. As he works 42 hours per week, out of a total 168 hours in the week or 25% of the time, his percentage of the home that is

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[12] Quebec residents also need form TP-64.3-V, *General Employment Conditions* for their provincial returns.

[13] 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.

[14] CRA's list of common home office supplies 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/expenses-can-claim.html.

considered to be used as a work space is 5% (i.e. 25% × 20%.) If he paid $500 monthly for utilities (home internet, electricity, heat and water) for 9.5 months in 2020, his employment portion would be $238 (i.e. $500 × 9.5 × 5%). Orlando would be better off claiming $2/day for 200 days or $400, with no need to track receipts or having to obtain a signed T2200S from his employer.

Contrast that to Michelle, who has also been working from home since March 16, 2020 and is a renter. She pays $2,850 monthly for a two-bedroom condo in Vancouver, and spends an additional $150 on home internet and electricity. She works in her second bedroom, which occupies 25% of her condo's total square feet. As this room is used exclusively for working from home, her claim is not altered by the time the room is used personally. Her deduction for 2020 would be $7,125 (i.e. $3,000 × 9.5 months × 25%) under the detailed method and she would require a signed T2200S[15] from her employer.

The CRA has created an online calculator[16] to help calculate your 2020 home office expense deduction.

Reimbursements

Some employees were reimbursed for the cost of computer or home office equipment. Generally, where an employee either receives an allowance, which does not cover specific expenses, or is reimbursed for expenses which primarily benefit the employee, a taxable benefit results. CRA is taking the administrative position, for 2020, that where an employee was reimbursed the cost of specific computer or home office equipment, amounts up to $500 will be considered for the primary benefit of the employer, and need not be included in income. Any amount reimbursed exceeding $500 will generally be treated as a taxable benefit.

New credits for 2020

The enhanced basic personal amount

New for the 2020 return is the enhanced basic personal amount (BPA), which is the mechanism used to ensure that no tax is paid on a certain amount of basic income. For 2020, the enhanced BPA is $13,229, up over $1,000 from 2019. But the increase in the BPA doesn't apply to everyone as it's reduced, on a straight-line basis, for taxpayers with net incomes above $150,473 (the bottom of the second-highest tax bracket for 2020) until it has been fully phased out once a taxpayer's income is over $214,368 (the threshold for the highest tax bracket in 2020), to ensure "the wealthiest Canadians would not benefit from this proposed change." The federal BPA results in a non-refundable credit valued at 15 per cent.

Digital news subscription credit (Line 31350)

Also new for the 2020 return is Line 31350 — Digital news subscription expenses, which allows you to claim a federal non-refundable credit of 15 per cent for up to $500 for amounts you paid in 2020 for qualifying subscription expenses. You must have paid the amounts to a qualified Canadian journalism organization for a digital news subscription to content that is primarily original news.

Canada training credit (Line 45350)

A new refundable tax credit available is the Canada training credit ("CTC") which you will find on Line 45350. Starting in 2019, eligible individuals started to accumulate $250 per year towards this credit, which can reach a maximum of $5,000 after 20 years. The credit can be claimed for certain tuition and other fees paid. If eligible, you can claim the lesser of half of the tuition and other fees paid, up to your CTC limit for the year. For the 2020 tax year, the maximum CTC limit would be $250. Your CTC limit will be available on your notice of assessment as well as through CRA's My Account portal.

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[15] This assumes no other employment expenses are claimed.

[16] CRA's online calculator can be found 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.

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