



## Home-office expenses: COVID-19 edition

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With millions of employees continuing to work from home as a result of the COVID-19 pandemic, the ability to deduct various home-office expenses from their income will, once again, be top of mind this tax-filing 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 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 2020, the federal government outlined simplified procedures for claiming home-office expenses for employees who were required to work from home due to COVID-19.<sup>1</sup> These simplified procedures were recently extended to apply for the 2021 and 2022 years as well.

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, 2021 and 2022, 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, 2021 and 2022 if an employee worked more than 50% of the time from home for at least four consecutive weeks.

### Two methods for 2020 to 2022

For the 2020 to 2022 tax years, 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.

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<sup>1</sup> See [canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/line-22900-other-employment-expenses/work-space-home-expenses.html](https://canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/line-22900-other-employment-expenses/work-space-home-expenses.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 \$500 (for 250 working days) (up from \$400 in 2020), 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<sup>2</sup>, and attach the form to their 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.

### Examples

Norah worked from home from Monday to Friday throughout 2021 due to the COVID-19 pandemic (261 days). She took three weeks of holidays (15 days), 11 statutory days, and took two days off due to illness. After deducting the days she did not work, Norah worked at home for 233 days in 2021. As she is able to claim \$2 per day for each day she worked at home, her total claim will be \$466.

Compare this to Shyla, who also worked from home in 2021 due to the COVID-19 pandemic. Shyla also works Mondays through Fridays (261 days), but also worked an average of two weekend days per month (24 days) in 2021. If she also took 15 vacation days, and was off work for 11 statutory days, she would have worked at home for a total of 259 days (with no sick days). While \$2 per day for 259 days works out to \$518, this exceeds the \$500 maximum claim amount for 2021, which is what Shyla can claim on her 2021 return.

## 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 the year can only claim expenses paid for the part of the year that they worked from home at least 50% of the time for at least four consecutive weeks.

To claim home office expenses under the detailed method, employees will be required to complete either CRA Form T777<sup>3</sup> 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<sup>4</sup> from their employer.<sup>5</sup> 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.

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<sup>2</sup> See [canada.ca/content/dam/cra-arc/formspubs/pbg/t777s/t777s-21e.pdf](https://canada.ca/content/dam/cra-arc/formspubs/pbg/t777s/t777s-21e.pdf) for 2021 form.

<sup>3</sup> If you claim additional employment expenses "Form T777 – Statement of Employment Expenses" is to be used.

<sup>4</sup> See [canada.ca/content/dam/cra-arc/formspubs/pbg/t2200s/t2200s-21e.pdf](https://canada.ca/content/dam/cra-arc/formspubs/pbg/t2200s/t2200s-21e.pdf) for 2021 form.

<sup>5</sup> 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.

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. The CRA has introduced an online calculator that can be used by employees to determine the appropriate claim for home office expenses.<sup>6</sup>

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.

## 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 reimbursing their employees for such purchases, so long as a receipt is provided. This reimbursement could be in the form of an "accountable advance" where the employee must account for all purchases with receipts, and return any amount not spent.

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.

For the period from March 15, 2020 to December 31, 2022, the CRA will not consider an employee to have received a taxable benefit if their employer has paid for or reimbursed them for the cost of computer or home office equipment, such as a desk or office chair, up to \$500 in total. This position only applies where an amount is paid for by an employer, or an employee is reimbursed for the purchase, including an accountable advance.

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 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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<sup>6</sup> 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](https://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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