

# CRA Simplifies Home Office Deduction Rules in Response to the Pandemic



You may not have to file the dreaded T2200 form for home office deductions in 2020!

According to Statistics Canada, nearly 2 in 5 Canadians worked at home as a result of the pandemic in 2020. And those numbers include only the first series of COVID lockdowns. Many of the people who worked from home will qualify for the so called “home office” deduction on their 2020 income taxes. With that in mind, the CRA announced that it’s temporarily relaxing the rules to make it easier for taxpayers to claim the deduction. Here’s a look at the rules and their impact on both employees and employers.

## The Home Office Deduction Rules

The home office deduction rules are set out in Secs. 8(1)(f), 8(1)(i)(ii) and (iii), and 8(13) of the *Income Tax Act* and explained in CRA Guide T4404(E) (Employment Expenses); and Interpretation Bulletin IT-352R (Vehicle, Travel and Sales Expenses of Employees). But in its 2020 Fall Economic Statement, CRA unveiled new rules for the coming tax year featuring both an improved detailed home office expense deduction as well as a special, one-time simplified flat rate method. Here are the basic rules under each of the 3 methods:

### 1. Working from Home as Condition of Employment

**Normal method:** Working from home must be a condition of employment. In normal times, the clearest indication of this requirement is an express provision in the employment contract.

**Detailed method:** Working from home must be a condition of employment, or employees must have worked from home due to the pandemic because the employer required or allowed them to do so.

**Flat rate method:** Employees must have worked from home due to the pandemic because the employer required or allowed them to do so.

## **2. Space Must Be Part of the Home**

**Normal method:** The space must be part of “a self-contained domestic establishment where the individual resides,” according to Sec. 8(13)(a). The CRA clarifies that this means a “home,” including a “dwelling-house, apartment or other similar place of residence in which a person as a general rule sleeps and eats.”

**Detailed method:** Same

**Flat rate method:** Same

## **3. Space Must Be Used for Performing Employment-Related Duties**

**Normal method:** Employees may claim the home office deduction if: i. the work space is where they “mainly,” (i.e., more than 50% of the time) do their work; or ii. they use the work space only to earn employment income and use it on “a regular and continuing basis” to meet clients or customers.

**Detailed method:** Employees can use this method if they worked from home for more than 50% of the time for a period of at least 4 consecutive weeks in 2020.

**Flat rate method:** Employees can use this method if they worked from home for more than 50% of the time for a period of at least 4 consecutive weeks in 2020.

## **4. Deduction Must Be for Eligible Costs**

**Normal method:** The deduction covers 2 kind of costs the employee incurs to use the space to earn income from the employment, including: i. “Office rent,” provided that they actually rent the space. In other words, employees who own their home can’t deduct the rental value of the space; and ii. Maintenance, that is, the “cost of supplies that were consumed directly” in the performance of the employment, including maintenance costs such as electricity, heating, light bulbs, cleaning materials and minor repairs. The home office deduction doesn’t include mortgage interest, property taxes, home insurance or capital cost allowance.

**Detailed method:** Same except that employee can now also claim home internet access fees, which includes the reasonable costs of a monthly plan but not connection fees and costs of leasing a modem or router.

**Flat rate method:** Because this method provides a flat deduction of \$2 per day worked from home due to COVID, up to a maximum of \$400 (200 days), employees don’t have to calculate their actual related home office expenses.

## **5. Costs Must Be Attributable to the Work Space**

**Normal method:** The deduction covers a portion of rent and maintenance for the home that employees must calculate by using a “reasonable basis” to attribute a percentage of the deducted expense to the part of the home used as a work space. Acceptable methods include:

- Dividing the area of the work space by total area of the home to calculate rent attributable to work space; and
- Determining how much of each claimed maintenance expense was actually used

to maintain the work space. **Example:** 0% of the cost of a light bulb would be deductible if the light bulb was used in the kitchen (if cooking isn't part of the job); but the employee could deduct 100% of the cost of a bulb used to light the desk lamp in the office.

**Detailed method:** Employees must calculate their actual costs based on the size of the home, the amount of space used as work space, hours spent in the work space and the number of other persons working from the home and keep documentation of those costs. CRA has created a new online calculator that employees can use to calculate their deductible expenses.

**Flat rate method:** Employees don't have to calculate their attributable home office costs.

## How to Claim the Home Office Deduction

Claiming a home office deduction is a headache for both employees and employers. The temporary rules simplify the process for the 2020 tax year.

**Normal method:** First, employees must complete the CRA form T777 to calculate deductible employment expenses and the deduction amount. The home office deduction applies only to employment income left over after employees deduct all other employment-related expenses from their employment. In other words, the home office deduction can't create or increase a loss from employment for the year. To claim the home office deduction, employees must also get their employers to complete a complex tax form called the T2200.

**Detailed method:** Employees claiming home office deductions on expenses actually incurred, as opposed to the flat rate, must complete and include with their tax return either:

- The T777 if they're claiming deductions for other employment-related expenses; or
- A simplified version of the form called the T777S if the home office is their only employment-related deduction they claim in 2020, specifically "Option 2."

Instead of the standard T2200, employers will have to complete the simplified T2200S to support the home office deduction claims of employees using the detailed method. In response to the pandemic, CRA is allowing employers to sign the T2200S (or T2200) electronically during the 2020 tax year.

**Flat rate method:** Employees claiming a flat rate home office deduction must complete "Option 1" of the new T777S and include it with their 2020 tax return. The good news is that employers don't have to complete either the T2200 or T2200S for employees claiming flat rate deductions.

### In a Nutshell: Detailed v. Flat Rate Home Office Deductions for 2020

| Issue   | Detailed Method  | Flat Rate Method   |
|---|--|--|
| Eligibility                                   | Working from home is employment condition or required or allowed by employer during pandemic | Working from home is required or allowed by employer during pandemic |
| Minimum time employee spent working from home | More than 50% of the time for period of at least 4 consecutive weeks                         | More than 50% of the time for period of at least 4 consecutive weeks |

|                             |   |  |
|-----------------------------|---|--|
| Deduction amount            | Based on actual costs   | \$2 per day worked from home due to COVID, up to maximum of \$400 (200 days) |
| Cost calculations required? | Yes   | No   |
| Employee claim form         | *T777 if employee claims other employment-related deductions<br>*T777S if home office only employment-related deduction claimed | T777S  |
| Employer claim form         | T2200S  | None   |