

CRA SIMPLIFIES PROCESS FOR DEDUCTING WORK FROM HOME EXPENSES

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As a result of the COVID-19 pandemic, many individuals have been forced to work from home. This has left employees questioning if they are able to claim tax deductions for expenses they incurred in the course of working from home. Likewise, employers have been struggling to determine how they can comply with administrative reporting requirements to help permit employees to properly deduct home office expenses.

Background

The *Income Tax Act* (Canada) (the “**Tax Act**”) significantly limits the ability of employees to deduct work-related expenses when computing their incomes for a particular taxation year. The Tax Act generally permits an employee to deduct (i) office rent to the extent the payment of such rent was required by the employee’s contract of employment, and (ii) the cost of supplies that were consumed directly in the performance of the employee’s duties of employment and that the employee was required by his/her contract of employment to supply and pay for. However, the Tax Act further provides that the foregoing amounts may not be deducted by an employee unless a prescribed form, signed by the employee’s employer, which certifies that certain qualifying conditions were met, is filed with the employee’s tax return for the year. The required prescribed form to be included with the employee’s tax return is CRA Form T2200 (a “**T2200**”). Historically, an employer would be required to issue signed T2200s to employees in order for the employees to be able to deduct expenses they were required to incur in the course of their employment.

Consultation Process

Many employers expressed concern that it was unclear whether existing employment agreements required employees to work from home during a pandemic (i.e., most employment arrangements did not contemplate pandemics – at least prior to this year). In addition, given the large number of employees working from home as a result of the COVID-19 pandemic, numerous stakeholders raised concerns about the administrative burden that issuing detailed T2200s to a large number of employees would place on employers.

Initially, the Canada Revenue Agency (the “**CRA**”) proposed a simplified version of the T2200 to be used in 2020, referred to as the “T2200 Short”, and engaged in a consultation process in order to solicit feedback. The CRA

received feedback on the T2200 Short between August 24, 2020 and September 18, 2020. One of the main concerns reportedly expressed by stakeholders during the consultation process was the administrative burden of having to issue a T2200 Short to any employee who worked from home. There were also concerns that there would be a high margin of error when completing the new form.

New Approach for 2020

On December 15, 2020, the CRA announced two new permitted approaches for employees to claim deductions in respect of home office expenses incurred in 2020: (i) a new temporary “flat rate method”, where no special form is required to be obtained from an employer and filed by employees (the “**Flat Method**”), and (ii) a new detailed method for claiming home office deductions, which will require the preparation and filing of the new T2200 Short (the “**Detailed Method**”).

The New, Temporary Flat Method

The CRA introduced the new, temporary Flat Method to simplify the requirements in order for employees to be able to deduct limited amounts of home office expenses incurred in 2020.

To qualify to claim deductions under the Flat Method, an employee must satisfy the following conditions.

First, the employee must have worked from home in 2020 due to the COVID-19 pandemic or the employer must have required the employee to work from home. The CRA has clarified that where an employee was not required to work from home, but the employer provided the employee with the choice to work at home because of the COVID-19 pandemic, the employee can still be considered to have worked from home due to COVID-19.

Second, the employee must have worked from home more than 50% of the time for a period of at least four consecutive weeks in 2020.

If an employee qualifies to use the Flat Method, the employee can claim a deduction equal to \$2 per day for each day the employee worked at home for the four week consecutive period plus each additional day he/she worked from home due to COVID-19. The CRA has clarified that a work day includes both days you work full-time, as well as part-time, from home. However, days off, vacation days, sick leave days or other leaves of absence are not counted as working days for the purposes of applying the Flat Method.

For example, if an employee worked solely from home March to June, and then worked in the office two days a week from July onwards, the employee could claim all the days worked from home in March through June as well as any additional days worked from home from that point onward for the purposes of the Flat Method.

Employees cannot deduct any other employment expenses if they use the Flat Method. Employees that wish

to deduct other types of expenses (e.g., automobile expenses) will still be required to obtain a T2200 from their employer.

The maximum deduction that can be claimed under the Flat Method is \$400 per individual. (Multiple individuals working from the same home are generally each eligible to make use of the Flat Method.) The ability to claim the full \$400 deduction under the Flat Method will require an employee to have worked 200 days from home in 2020.

To claim a deduction under the Flat Method, the employee must complete the “Option 1” section of CRA Form T777S (a “**T777S**”) and file the completed form with his/her income tax return for 2020. A blank copy of the T777S can be accessed [here](#).

The advantage of the new, temporary Flat Method is that employees do not have to determine the size of their work space in their home, calculate their home office expenses, or obtain a completed T2200 signed by their employer.

The Detailed Method

The CRA has also provided the alternative, Detailed Method, which may be used by employees whose home office expenses in 2020 exceed \$400.

The criteria to be eligible to rely on the Flat Method (as described above) also apply to determine eligibility to make use of the Detailed Method. In addition, to make use of the Detailed Method, (i) the claimed expenses must have been incurred in the individual’s employment and (ii) the employee must obtain a completed T2200 or CRA Form T2200S (also referred to as the T2200 Short)(the “**T2200S**”) signed by his/her employer. The T2200S is to be used where an employee worked from home due to COVID-19 and only wishes to claim deductions in respect of home office expenses. Where an employee intends to deduct other types of expenses incurred in respect of his/her employment, a more detailed T2200 is required to be obtained by the employee.

The T2200S is a simplified version of the T2200. The T2200S effectively only requires an employer to respond to three simple questions in respect of an employee. A completed T2200S does not need to be attached to an employee’s income tax return for 2020; however, the completed form needs to be retained by the employee in the event that the employee is subsequently audited by the CRA. A blank copy of the T2200S can be accessed [here](#).

The CRA has clarified that it will accept electronic signatures on the T2200 and the T2200S in order to minimize the need for employers and employees to meet in person.

If an employee wishes to rely on the Detailed Method, in addition to obtaining a completed T2200S from

his/her employer, the employee must also complete the “Option 2” section of the T777S, which must be attached to the employee’s income tax return for 2020. The “Option 2” section of the T777S requires an employee to provide a relatively detailed breakdown of the home office expenses that he/she wishes to deduct when computing his/her taxable income for 2020.

The CRA has also created a detailed list of the expenses that can, and cannot, be claimed by an employee who relies on the Detailed Method. The CRA’s listing can be accessed [here](#). Deductions claimed in respect of home office expenses must be based on the portion of the actual amounts expended that were used by the employee in the course of his/her employment in 2020. Any expenses that are reimbursed by the employee’s employer cannot be claimed. The CRA has indicated that employees may be entitled to deduct the applicable portion of expenses like home electricity, heat and water expenses, the utilities portion of a condominium fee, home internet access fees, home maintenance and minor repair costs, and rent for the place where the employee lived and performed his/her employment in 2020. Mortgage payments, both principal and interest, cannot be deducted under the Detailed Method. Equally, the cost of capital items, like a desk or chair, cannot be deducted under the Detailed Method.

Home office expenses to be deducted under the Detailed Method must be apportioned based on the percentage of the employee’s residence that his/her workspace occupies. For example, if a home office represents 10% of the total square footage of an employee’s home, then only 10% of each utility bill and rental payment may potentially be deducted under the Detailed Method.

Employees can also potentially deduct expenses under the Detailed Method for items that are used up directly in the course of their employment such as ink cartridges, pens or pencils, and notepads.

Observations

The Flat Method is an efficient means for employees to claim deductions in respect of home office expenses incurred in 2020 as no CRA form is required to be completed by the employee’s employer and no detailed computations are required to be performed by the employee.

By contrast, the Detailed Method may be preferable where an employee’s home office expenses in 2020 will significantly exceed \$400. However, employees will need to be conscious of the fact that the Detailed Method requires employees to prepare detailed computations in support of the home office expenses they may deduct in respect of 2020. Of particular note, the CRA has indicated that it expects employees to carefully compute the portion of their homes used to perform their employment duties. In the view of the CRA, such computations will require detailed measurements and apportionment of the use of any common areas of a home between use for employment and other uses. (In this regard, the CRA has indicated that it expects employees to divide the number of hours worked in a week by 168 to determine the percentage of a common area of a home that is

used for employment.) Moreover, the CRA has indicated that it will require multiple individuals that have performed their employment in the same home to apportion eligible home office expenses between themselves.

The CRA has prepared a calculator, which can be accessed [here](#), to help employees determine the amount of home office expenses that they may be entitled to deduct when computing their taxable incomes for 2020.

by Michael Friedman and Michael Hassar

A Cautionary Note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

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