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INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES



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## Deducting home office expenses for 2023

Employees must meet eligibility criteria and use the detailed method this year

In 2020, millions of Canadians had to start working from home due to the COVID-19 pandemic. In response, the government introduced the flat rate method to make it easier for employees to claim home office expenses on their tax returns. This was a temporary measure, and you can no longer use the flat rate method to claim home office expenses for 2023 or subsequent years. Going forward, you will need to use the detailed method to claim home office expenses if you are eligible.

This article discusses the circumstances in which home office expenses incurred by salaried and commissioned employees are deductible, the process for deducting them, as well as whether allowances and reimbursements provided by an employer are taxable.

### Who is eligible

You are eligible to claim a deduction for home office expenses for the period you worked from home, if you meet **all** of the following criteria:

1. You were required to work from home by your employer. Being required to work from home does not have to be part of your employment contract and may be a written or verbal agreement. Alternatively, for 2023, if you voluntarily worked from home and entered into a formal telework arrangement with your employer, you are considered to have been required to work from home.
2. You were required to pay for expenses related to the work space in your home;
3. The expenses relate directly to your work during the period; and
4. Your work space is where you mainly work (more than 50% of the time) for a period of at least four consecutive weeks. Alternatively, this criteria may be met if you only use your work space to earn employment income and use it regularly and continually for in-person meetings with clients, customers or others while doing your work.

## Method for claiming home office expenses

For 2023, if you worked from home and are eligible, you must use the detailed method to claim home office expenses. Your employer must also complete and sign certain forms to confirm you are eligible to claim these expenses.

### Required forms

In order to claim a deduction for home office expenses, you're required to have your employer complete and sign CRA Form T2200 – *Declaration of Conditions of Employment*. More specifically, home office expenses may only be claimed if your employer confirms on the T2200 that you were required to work from home. The T2200 is also required if you're claiming other employment expenses in addition to home office expenses. The CRA's updated T2200 for 2023 will be made available at the end of January 2024.

By signing the form, your employer is certifying that you are required to pay for your own expenses while carrying out your employment duties and that those expenses are not reimbursed by your employer. For 2023, the CRA will accept an electronic signature on Form T2200.

Although you're not required to file the T2200 with your personal income tax return, you should keep a copy of it for at least six years, in addition to any receipts or supporting documents, in case the CRA asks to see them.

In order to make a claim for home office expenses, you will also need to complete Form T777 – *Statement of Employment Expenses*. For more information on how to make the claim on your personal tax return, please refer to the [CRA website](#).

### For Quebec residents

If you live in Quebec, in addition to Form T2200, you will also need to have your employer complete and sign Form TP-64.3-V – *General Employment Conditions*. Revenu Quebec allows employers to complete and sign Form TP-64.3-V electronically. This form must be filed with your Quebec tax return for 2023.

In order to make a claim for home office expenses on your Quebec personal income tax return, you will also need to complete Form TP-59-V – *Employment Expenses of Salaried Employees and Employees Who Earn Commissions*. You will also use this form to claim other types of employment expenses in addition to home office expenses.

### Determining your work space expenses

Whether you own or rent your home, the amount you can claim for the work space in your home must be apportioned on some reasonable basis, such as square footage of space

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used. For example, a reasonable apportionment could be the area of your work space at home divided by the total finished area of your home (including hallways, bathrooms and kitchen). The CRA has provided guidance on how to calculate the size of your work space. Please see the [CRA website](#) for more information.

As an example, assume you have a designated room in your house, such as an office or a spare room that you use only for work. If that room accounts for 20% of your home's total square footage, you can deduct 20% of the expenses related to your work space. This percentage also applies to the amount of rent you can deduct if you rent your home.

If you work in a common area, for example at a kitchen table that has other purposes besides your work, then you must calculate your employment use of that space. You can determine your employment use of the space by calculating the number of hours you use the space for work. For example, if you work 32 hours a week at the kitchen table, you can claim 19% (32 hours worked/168 total hours in a week) of the expenses relating to that space.

If you're the only one working in a particular space in your home, you can claim the whole employment use of that work space. However, if you and another family member share the work space (whether it's a designated area or a common work space) you will each have to calculate a portion of the employment use of the work space you are sharing.

### Deduction limitations

If you worked only part of the year from home, you can only claim the expenses you paid in that part of the year. For example, let's say you worked from home from January 3 to May 31, 2023, but you went back to the office full-time in June. Assuming you meet all of the relevant criteria, you can claim the work space expenses you paid for those periods you worked exclusively from home, but you cannot claim the expenses you paid for the full year.

In addition, keep in mind that it's possible to deduct the expenses related to your home office only to the extent that they do not exceed your employment income for the year (as determined before deducting those expenses). In other

words, you can't create or increase a loss for tax purposes by deducting home office expenses. Rather, you are able to carry forward any expenses in excess of your employment income and deduct them against your employment income (from the same employer) in a future year, provided you meet the relevant criteria in that year as well.

### Expenses you may be able to claim

The following tables summarize some common home office supplies, work space expenses, as well as cell phone and internet expenses that are deductible, if you meet all of the relevant and respective criteria. For a more comprehensive list, please visit the [CRA website](#).

#### Home office supplies

With respect to home office supplies, you can claim an item that's used up while directly performing your job. You can claim only the expense, or the portion of the expense, that you use for work.

Item	Deductibility
Envelopes	Yes
Folders	Yes
Highlighters	Yes
Ink cartridges	Yes
Notebooks	Yes
Paper clips or binder clips	Yes
Pens or pencils	Yes
Printer paper	Yes
Specialty paper (i.e., graph paper)	Yes
Stamps or postage	Yes
Stationery items	Yes
Sticky notes	Yes
Toner	Yes
Supplies that are capital in nature (i.e., calculators, printers, desks, chairs lamps, etc.)	No
Lease of a cell phone, computer, laptop, tablet, fax machine, etc. that can reasonably relate to earning commission income	No, for salaried employees Yes, for commissioned employees

### Work space expenses

Type of expense	Deductibility
Rent	Yes <sup>1</sup>
Utilities (electricity, heat, water)	Yes <sup>2</sup>
Repairs and maintenance	Yes <sup>3</sup>
Home insurance	No, for salaried employees Yes, for commissioned employees
Property taxes	No, for salaried employees Yes, for commissioned employees
Principal mortgage payments	No
Mortgage interest	No
Furniture	No
Capital expenses (replacing windows, flooring, furnace, etc.)	No
Wall decorations	No
Capital Cost Allowance	No

### Cell phone and internet expenses

Type of expense	Deductibility
Basic cellular service plan (minutes/data)	Yes <sup>4</sup>
Monthly basic home phone (landline) rate	No
Long distance telephone calls made for work (for cell phone and landline)	Yes
Home internet access fees	Yes <sup>5</sup>
Home internet connection fees	No

1 If you rent your home, you can claim a reasonable portion of the rent related to the work space. If you own your home, you cannot claim the rental value of the work space in your home.

2 Includes utilities portion (electricity, heat and water) of your condominium fees.

3 You can claim the total amount of the expenses related to your work space only, if the amount paid is reasonable. For example, the cost of light bulbs, repainting your work space, or repairing walls or ceilings after installing phones or other office equipment you used in the work space. You can also claim the percentage of those expenses that relate to your work space, even if the maintenance or repair cost relates to other areas of the home. For example, minor repairs to your home furnace or air-conditioner or the purchase of household cleaning products.

4 The cost of the plan must be reasonable. The cost of the plan has been reasonably apportioned between employment and personal use. You must be able to show the cellular minutes or data you consumed directly while performing your employment duties (as well as the cost of the minutes or data).

5 The cost of the plan must be reasonable for federal tax purposes. Revenue Quebec has stated that internet fees can be deducted for Quebec tax purposes if they are billed according to use.

## Calculating your expenses

The CRA has a [calculator](#) to help you determine the home office expenses deduction that you're entitled to.

### An example

Craig is a salaried employee who meets all the conditions to be eligible to claim a deduction for home office expenses for 2023. He worked from home a total of 255 days, excluding statutory holidays and summer vacation.

Craig incurred certain expenses in order to work from home that his employer will not reimburse. He changed his internet package, which now costs \$80 per month, and he bought \$70 of office supplies (pens, paper and ink). He also bought \$2,500 worth of furniture (desk and ergonomic chair) and office equipment (printer, calculator and stapler).

Craig designated a room in his home as his office and calculated that his office is 10% of the square footage of his home. He uses the office for work 100% of the time. His utility bill is \$250 per month and his mortgage payments and property taxes total \$2,400 per month.

Craig can claim a deduction of \$466 on his personal income tax return for home office expenses:

Eligible expenses	Detailed method
Home internet access fees	$\$80 \times 12 \text{ months} \times 10\% = \$96$
Office supplies	\$70
Utilities	$\$250 \times 12 \text{ months} \times 10\% = \$300$
<b>Total expenses</b>	<b>\$466</b>

Craig's furniture, office equipment, mortgage payments and property taxes are excluded from the calculation because they are not deductible.

## Allowances and reimbursements

To assist you in working from home, your employer may have provided you with an allowance to cover home office expenses such as personal computer equipment or a headset. Or, perhaps your employer may have chosen to instead reimburse you for certain expenses you had to incur.

Generally, an allowance or reimbursement for items such as personal computer equipment will be considered a taxable benefit, and you will be required to include the amount in your income.

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The CRA's view is that you have received an economic benefit when you are reimbursed, in whole or in part, for purchasing an asset that you get to keep, even if you use the asset for employment purposes. In addition, if you received an allowance to cover a portion of your home office expenses, it will generally be considered a taxable benefit regardless of whether you can deduct home office expenses.

In prior years, due to COVID-19, the CRA had a concession whereby a reimbursement by your employer of up to \$500 for the cost of acquiring personal computer equipment and home office furniture that enabled you to properly perform your employment duties was not a taxable benefit. This concession is no longer available for 2023.

Keep in mind that you cannot claim a deduction for any expenses that were or will be reimbursed by your employer.

## Conclusion

With the changes to the process for claiming 2023 home office expenses, many salaried and commissioned employees will no longer be eligible to claim home office expenses even though they may occasionally work from home. If you are required to work from home and pay for expenses related to the work space in your home, it's a good idea to become familiar with the rules for deducting home office expenses. A qualified tax advisor can help determine whether you are eligible to claim home office expenses for 2023.

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