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INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

## Deducting home office expenses for salaried employees

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Whether you regularly work from home or have recently started working from home due to the COVID-19 pandemic, you might be interested to know the rules regarding the deductibility of home office expenses on your personal income tax return. This article discusses the limited circumstances in which home office expenses incurred by salaried employees are deductible, as well as whether allowances and reimbursements provided by your employer are taxable.

Although the article references the current tax rules with respect to home office expenses, it's possible the Canada Revenue Agency (CRA) may revisit some of their interpretations of the rules or provide more guidance as a result of more people working from home due to COVID-19. It's important to speak with your qualified tax advisor to discuss your specific working circumstances and the latest CRA guidance before claiming any deductions on your tax return.

### Deducting rent, salary and supplies

If you are a salaried employee (i.e., you are paid a fixed salary by your employer), you may be able to deduct the following types of expenses:

- Reasonable costs for rent relating to your home office. Note that if the office space is part of a home that you own, you cannot deduct the rental value of the home office area.
- Reasonable salary you pay to an assistant or substitute. You can

also deduct your share of the Employment Insurance premiums and the Canada or Quebec Pension Plan contributions that you are required to pay.

- Supplies that were used directly in performing your employment duties. Supplies are only those materials you use up directly in your work, and are not used for any other purpose. Supplies include items such as pens, stationery, stamps, toner, and ink cartridges. Supplies do not include any capital

expenditures such as briefcases, calculators, computers, printers, filing cabinets, desks, chairs or lamps.

You can also deduct expenses you paid for long-distance phone calls and cellular phone minutes that reasonably relate to you earning the employment income. You can generally not deduct the monthly basic service charge for your cellular phone unless you can substantiate that you used your cellular phone exclusively for employment purposes.

The CRA's view is that you cannot deduct the monthly basic service charge for your home telephone, a second telephone line or monthly internet access fees because these are not consumed directly in the performance of your employment duties. However, Revenu Quebec has stated that internet fees can be deducted for Quebec tax purposes if they are billed according to use.

These costs are deductible provided they relate to you earning income from employment and that you are required under your employment contract to supply and pay for these expenses. The CRA has confirmed that although an express requirement within the terms of a written employment contract would be best practice, the work-from-home arrangement doesn't need to be in writing, provided the details of the arrangement are agreed to and clearly understood by both you and your employer. The CRA has also confirmed that a work-from-home arrangement can be initially entered into voluntarily and formalized later.

The cost for rent, salary, and supplies are also only deductible if you have not been reimbursed or entitled to be reimbursed for these expenses.

## Deducting expenses

In addition to the deducting rent, salary and supplies, you may be able to deduct home office expenses, related to a work space in your home, if you meet one of two additional conditions. Your home office must either be:

1. The place where you principally perform your employment duties; or
2. Used exclusively for the purpose of earning employment income and used on a regular and continuous basis for meeting customers or other people in the ordinary course of performing your employment duties.

Either of these conditions could be difficult to meet if you are temporarily working at home due to the current pandemic situation. Here's why:

### Condition #1: Principally performs

The first condition requires that your home office be the place where you "principally" perform your employment duties. Although the term principally is not defined in the Income Tax Act, the CRA has accepted the view that it means more than 50% of the time. However, it is unclear what period of time should be used to determine whether you principally perform your employment duties from your home office. For example, in the context of temporary mandatory work-from-home arrangements, should the 50% requirement be calculated over the course of a full year or can it be calculated over a part of the year where you've been required to work for home?

Given the uncertainty of this, be sure to consult with a qualified tax advisor to help you determine if you meet this condition. With that said, if you are resident of Quebec, for provincial tax purposes, Revenu Quebec has said that if you are working from home, the 50% requirement should be met in the current context of the COVID-19 pandemic.

### Condition #2: Meeting customers

The second condition requires not only that your home office be used exclusively for the purpose of earning employment income but that it is also used on a regular and continuous basis for meeting customers, clients, or patients. The CRA's longstanding administrative position is that a "meeting" only includes face-to-face encounters and would not include meetings by e-mail, telephone or audio/video conferencing software. Given the social distancing requirements by the government due to COVID-19, it would be difficult to meet this test.

### Eligible expenses

If you meet one of the two conditions mentioned above, regardless of whether you own or rent your home, you may deduct a reasonable portion of the amount you paid for its maintenance, such as the cost of heating, electricity, light bulbs, cleaning materials and minor repairs. You cannot deduct the mortgage interest, property taxes, home insurance or capital cost allowance (CCA) on your home.

Along with deducting the eligible expenses, you may be able to claim a rebate for any associated goods and services tax (GST), Quebec sales tax (QST), or harmonized sales tax (HST) that you paid on these expenses.

### Apportionment of expenses

The amount of expenses you can claim must be apportioned between the employment and non-employment use of your home on some reasonable basis, such as square footage of floor space 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).

Let's assume you had a work space that you used exclusively for business purposes and the work space occupied 400 square feet in your 2,000 square foot home. Your annual household expenses that are eligible for a deduction total \$10,000. A reasonable apportionment of expenses would be:  $400/2,000$  square feet  $\times$  \$10,000 expenses = \$2,000. The portion of annual household expenses eligible for a deduction that relate to your work space is therefore \$2,000.

The reasonable basis you choose should also take into consideration any personal use of your home office. For example, if your home office is 20% of the total floor space of your home, but you use the home office 90% of the time for employment purposes and 10% of the time for personal purposes, then you could deduct 18% (i.e., 90% of 20%) of your total eligible expenses for the home.

### Deduction limitation

You can 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 cannot 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.

### Required forms

In order to claim a deduction for home office expenses, you are required to have a completed and signed CRA Form T2200, *Declaration of Conditions of Employment*, from your employer. 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. The employer is not obligated to provide an exhaustive list of all the expenses you are required to incur, nor are they required to determine the deductibility of your expenses. The T2200 form is not required to be filed with your personal income tax return, however, you are required to submit the form to CRA in case they ask to see it.

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*. As a relief measure during the COVID-19 pandemic, Revenue Quebec will allow employers to complete and sign Form TP-64.3-V electronically and e-mail a copy to you. This form must be filed with your Quebec tax return for the year.

In order to claim a deduction for home office expenses, you are required to have a completed and signed CRA Form T2200, *Declaration of Conditions of Employment*, from your employer.

The likely increase in home office expense claims for 2020 could place a large administrative burden on many employers who may have to amend employment contracts and complete numerous T2200 forms for each employee. To alleviate this possible administrative burden, the Canadian Tax Foundation and Chartered Professional Accountants of Canada together have asked the government whether a streamlined approach could be used instead.

### Allowances and reimbursements

To assist you with 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 has chosen to instead reimburse you for certain expenses that 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.

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 that 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 be generally be considered a taxable benefit regardless of whether you can deduct home office expenses.

However, the CRA recognizes that, due to COVID-19, many employees have needed to purchase computer equipment as well as home office furniture such as desks and chairs in order to work from home. Consequently, the CRA recently confirmed that a reimbursement of up to \$500 for the cost of acquiring personal computer equipment and home office furniture that enables you to immediately and properly perform your employment duties will not be a taxable benefit as the items are mainly for the benefit of your employer. You will need to keep receipts in order to provide supporting documentation.

The CRA has stated that although they do not plan on increasing the \$500 threshold amount at this time, they are monitoring the situation.

## A summary of home office deductions

Although the list of deductible home office expenses for salaried employees may be limited, these deductions could result in sizeable tax savings. Be sure to keep receipts and records of your eligible home office expenses to support any deductions you will be claiming on your tax return. The following table summarizes the deductibility of some common home office expenses, if you meet all of the relevant respective criteria.

*This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.*

Type of expense	Deductibility
Rent	√ <sup>1</sup>
Salary for an assistant or substitute	√
Office supplies (such as stationery, toner, ink cartridges, etc.)	√
Supplies that are capital in nature (i.e., calculators, computers, printers, filing cabinets, desks, chairs or lamps)	X
Long-distance phone calls relating to employment	√
Cellular phone minutes relating to employment	√
Cellular phone monthly basic monthly service charge	√ <sup>2</sup>
Second phone line	X
Monthly internet access fees	X <sup>3</sup>
Unlimited long distance plan	X
Utilities	√
Repairs and maintenance	√
Home insurance	X
Property taxes	X
Mortgage interest	X
Capital Cost Allowance	X

- 1) If the office space is part of a home that you own, you cannot deduct the rental value of the home office area.
- 2) Only deductible if you can substantiate that you used your cellular phone exclusively for employment purposes.
- 3) Revenu Quebec has stated that internet fees can be deducted for Quebec tax purposes if they are billed according to use.



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