

# Working from home? Don't miss out on valuable tax savings



## News & Views

COVID-19 has been a major game changer for how employees do their work. Traditional face-to-face meetings, conferences, and everyday commutes have been replaced with Zoom calls, webinars, and a walk from your bedroom to what may be a makeshift home office. With that in mind, this working-from-home arrangement that many of us are now experiencing can be turned into tax savings when it comes time to file your 2020 tax return — and perhaps beyond this year depending on how long your work from home arrangement will continue.

## So, what's the opportunity?

Well, there are specific rules in our tax law that apply to employees who work from home. And, at a high level, these rules allow for an employee who's required to work from home to claim a deduction for home office expenses, or, as the Canada Revenue Agency (CRA) describes them, [Work-space-in-the-home-expenses](#). According to the CRA, you can deduct expenses for employment use of a workspace in your home if you meet one of these conditions:

- The workspace is where you mainly (more than 50% of the time) do your work.
- You use the workspace only to earn employment income. You also have to use it on a regular and continuous basis for meeting clients, customers, or other people in the course of your employment duties.

With this in mind, what does this mean in a pandemic where millions of Canadians were forced to work from home unexpectedly due to lockdowns and other measures put in place by either the government or their own employer? The above-mentioned criteria doesn't consider this anomaly, making it unclear what work-from-home expenses may qualify for deduction.

Well, there appears to be some guidance on this issue based on a recent CRA consultation — and it's good news for taxpayers who've been working from home. The short answer is that employees who were required to work from home during the pandemic should be allowed a deduction for home

expenses incurred over this time period. Up until this point, there was concern over what was considered “more than 50% of the time,” in terms of being onsite for the deduction (for example, would an employee be required to work from home for more than 50% of the year?).

Home office expenses can include rent, utilities, supplies, and repairs and maintenance, but not mortgage interest or capital cost allowance. If you’re a commissioned employee, you can also deduct property taxes and home insurance. These expenses need to be allocated on a proportionate basis based on the amount of workspace the home office takes up aside from repairs and maintenance, which is deducted based on how the expense directly relates to the workspace. Note that the deduction for home expenses is limited to the amount of net employment income; that is, you can’t create or increase a loss from employment. However, any expenses that can’t be deducted in a year can be carried forward and potentially used in future years.

## Let’s take a look at an example

In this case, an employee was required to work from home from March 1 to July 31 due to COVID-19 restrictions.

<b>Total square footage of home</b>	1,500 square feet
<b>Home office square footage</b>	300 square feet
<b>Number of months working from home</b>	5 months
<b>Total eligible home office expenses over time period</b>	\$2,500

Based on this example, the employee would be allowed to claim a \$500 deduction in connection with their home office expenses, calculated as follows:

Now, if the employee was in a 40% marginal tax bracket, this would translate into \$200 of tax savings (\$500 x 40%).

## What documentation is needed?

If your employer requires you to work from home, it’s necessary that they complete form T2200, “Declaration of Conditions of Employment,” for you to deduct employment expenses related to your home office. In ordinary times, even though form T2200 is somewhat complex and burdensome for employers to complete, it’s still a relatively straightforward procedure, and if you are a regular work-from-home employee this is a form that you would have likely received in the past. The problem is, we’re currently not operating in normal times. Therefore, this presents a challenge for employers to prepare the form and for employees to obtain the form, given the vast number of people across an organization who’ve been required to work from home during the pandemic.

So, to help combat this administrative nightmare in terms of issuing form T2200 to all employees who qualify, CRA has circulated and asked for input on a simplified form, “T2200 Short.” As the name suggests, this drastically simplified form may be the solution to the problem of employees obtaining the proper documentation from their employer to deduct home office expenses in the year. Given that the draft “T2200 Short” is significantly easier for employers to complete (it’s only one page consisting of 4 questions), this will significantly decrease the administrative burden and make it easier to issue the form to employees so they can claim a home office deduction. With that said, this is still not law

and CRA is still exploring alternatives — one being redesigning the T4 tax slip that includes a checkbox confirming the employee’s eligibility to claim expenses.

Nonetheless, the good news is that regardless of what solution CRA settles on in terms of documentation, there should be a way for employees to deduct home office expenses during this pandemic year and for all intents and purposes beyond this year. Our recommendation is to continue to keep track of your home office expenses while keeping an eye on the CRA’s final decision in terms of the required documentation as more information should be forthcoming soon.

## Update: December 1, 2020

On November 30, 2020 the federal government released its fall economic statement providing a means to simplify the home office expense deduction. Recognizing the number of Canadians working from home in 2020 due to the pandemic, CRA will allow employees to claim “modest” expenses of up to \$400 in connection with their work from home arrangement this year. As part of this simplified procedure, there will be no need for employees to track detailed home offices expenses nor will there be a requirement for employers to issue form T2200.

Although this simplified procedure is good news, as a planning point, it is still possible for employees to claim the home office expense deduction under the existing rules outlined above. Therefore, an employee should look at their situation and determine what method may result in greater tax savings. However, it should be noted that if an employee decides to proceed under the existing rules, this likely will require form T2200 to be issued by their employer in order to claim the deduction.

There will be further communication in this regard released by CRA in the coming weeks.

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