

Deduction of Home Office Expenses

Background

As a result of COVID-19 pandemic, many of you have temporarily shifted to a "work from home" environment at the request or permission of McGill University (the "University") and you may be considering whether it would be allowed to deduct certain home office expenses for work spaces and home office supplies on your 2020 personal income tax.

McGill is providing this general guidance in support of employees who are considering claiming home office expenses incurred in 2020. It is important to understand these rules to ensure that you claim the appropriate expenses on your personal tax returns. The University does not take on any responsibility with respect to the decision for an employee to claim a deduction on their tax return. We recommend that you seek tax advice from your professional tax advisor on this matter.

Given that the Canada Revenue Agency (CRA) and Revenu Quebec typically take a similar approach to home office expenses, this guide only addresses the general rule from the CRA for illustration purposes. For Quebec, the document only highlights instances where their approaches differ.

Overview

Before 2020, pursuant to existing legislation under the *Income Tax Act* (Canada) ("ITA"), an employer may issue to an employee an authorized Certification using the Canada Revenue Agency ("CRA")'s prescribed form T2200 – *Declaration of Conditions of Employment* to facilitate the employees' ability to claim home office expenses and supplies to the extent certain conditions are met. For the 2020 tax year, under the CRA's new administrative policy, the taxpayer may claim home office expenses using one of two methods.

Option 1 – Simplified method

Employees who worked from home for more than 50% of the time for a period of at least four consecutive weeks in 2020 due to COVID-19 can claim \$2 for each day worked from home during that period plus any additional days they worked at home in 2020 due to the COVID pandemic. The maximum claim allowed per individual is \$400 for the 2020 tax year. This may be done without the need to track detailed expenses,

and for such claim, the employer will not be required to provide an authorized Form T2200/T2200S.

Under this method, employees do not have to calculate the size of their work space or keep supporting documents. Days that can be counted include days an employee worked full-time or part-time hours from home. Days that cannot be counted include days off, vacation days, sick leave days, and other leaves or absences.

Note that this method can only be used for the 2020 tax year and by using this method, the employee cannot claim any other employment expenses (for example motor vehicle expenses). It should also be noted that for those who have been working remotely from home since the beginning of the pandemic, calculating and claiming actual home office expenses may likely result in a higher deduction than claiming \$400. For further guidance on this simplified method, see *Example 1* in the Appendix.

Option 2 – Detailed method

In cases where an employee is able to provide support that the amount of actual eligible expenses incurred are in excess of \$400, and thus chooses to claim the actual amount, in the 2020 tax year, an authorized Form T2200 or T2200S – *Declaration of Conditions of Employment for Working at Home Due to COVID-19* is required to be provided by the employer and retained by the employee. Otherwise, the claim on the deduction of actual expenses incurred could be denied under a CRA audit. Note that the different purpose and use of T2200 and T2200S is addressed under “Documentation” section

In order for McGill to determine whether Form T2200/T2200S can be issued to an employee for the 2020 tax year, all the following requirements must be met:

1. The employee was required by the University, either through written or verbal communication, to work from home for at least four consecutive weeks in 2020 due to the COVID-19 pandemic. In a situation where the University provided you with the choice to work at home because of the COVID-19 pandemic, the CRA will consider you to have worked from home due to COVID-19;
2. The employee was not and would not be fully reimbursed for expenses related to home office expenses;
3. The work space expenses may reasonably be regarded as required to earning employment income (i.e. employee needed a place to work from home to perform employee’s employment duties – see detailed criteria under “Work Home Expenses”); and

4. In the case of home office supplies, they were consumed directly in the performance of the employee's duties of the employment.

In respect of the detailed method, the following sections provide more detail as to how employees are considered eligible to claim expenses related to a work space in their home, what type of home office expenses are considered eligible, and how much of home office expenses incurred can be claimed.

Work Space Expenses

For the 2020 tax year, an employee may only deduct work space expenses to the extent that the work space meets one of the following conditions:

1. The work space is the place where the employee principally (more than 50% of the time) performs employment duties for a period of at least four consecutive weeks, or
2. The employee uses the work space exclusively during the period in respect of which the expenses relate to earn employment income, on a regular and continuous basis for meeting customers or clients.

Given the circumstances of the COVID-19 pandemic, employees may claim deductions in relation to the portion of the year that they worked from home if they met one of the above conditions. In the case of the employees of the University, condition #1 would be met for a period of at least four consecutive weeks where they have been asked to work from home, as this represents more than 50% of the performance of their employment responsibility.

In a situation where an employee voluntarily returned to the University's work location and no longer worked more than 50% from home, it is the employee's responsibility to only deduct eligible expenses to accurately represent the percentage of the year that the employee was primarily working from home.

Types of Home Office Expenses

The ITA provides support that deductible work space expenses consist of a reasonable proportion of expenses paid by the employee for the maintenance of the home, for example the cost of

- Electricity, heating and water
- Maintenance costs, such as cleaning materials and light bulbs
- Minor repairs
- Home internet access fees

- The portion of condominium fees that relate to utilities (such as electricity, heat, and water)
- Reasonable portion of rent if home is rented

Specifically excluded from the claim list for salaried employees are the following items:

- Mortgage interest and/or principal mortgage payments
- Property taxes
- Home Insurance
- Home internet connection (setup) fees
- Capital Cost allowance on the home if owned

Some other considerations include:

- If an employee pays their utilities (electricity, heat, and water) directly to a service provider, no portion of condominium fees are deductible.
- Costs that are directly incurred in relation to the work space may be fully deductible but cannot include items that are capital in nature. Thus, cleaning costs that are specific to the work space that is exclusively used as a work area would be deductible.
- Generally, the deduction of work space related costs must be apportioned to the area of the home that is used as a work space using a method that is considered reasonable.

Work Space Determination

General approach

There is no requirement under the ITA to only use one method of allocating costs where another method reflects a more accurate allocation of the cost category that is fair and reasonable.

The portion of costs related to a home office is generally determined based on the square footage of the home office space as a percentage of the home's total finished area square footage. This method would be used for costs that support the overall operation of the home, such as utilities, rent, maintenance costs and minor repairs.

To the extent that the work space is a shared space that also has a personal use component (for example the kitchen table) then a factor would be applied to ensure that only the employment portion of use is included. See *Example 2* in the Appendix.

Internet cost allocation

A fair and reasonable method to allocate bundled costs such as home internet would be based on the time when the internet is being used for business purposes in relation

to the time used for personal purposes. This could be tracked by monitoring the time access usage for the internet between business use and personal use and taking into consider if there were multiple family members using internet at the same time to arrive at a reasonable allocation rate to be applied throughout the period of time where you were working principally from home. See *Example 2* in the Appendix.

To the extent that you upgraded to a higher internet speed to handle video calls it could be contended that the cost of the upgrade from one level of service to another is fully attributed to a business use. It is important to maintain information in relation to the manner in how the allocation between business and personal use was determined.

Office Supplies

Employees are also able to claim a deduction for the cost of office supplies and expenses that are used directly in the performance of employment duties.

Common office supplies that are deductible include:

- Stationery items, such as pens, pencils, toner, ink cartridges, paperclips, charts and stamps
- Long distance telephone calls incurred for work purposes
- Cell phone airtime charges incurred for work purposes

Capital expenditures of office equipment and furniture (such as computers or printers) are not deductible. The CRA's view is that employees generally cannot deduct the following: calculators, briefcases, monitors, computers and office furniture.

GST/HST/QST Rebate

The University is a GST/HST/QST registrant, employees of the University may be able to claim a GST/HST/QST rebate for the portion of work space expenses and home office supplies related to the employment activity. To qualify for this rebate, employees must complete and file Form GST370 (TPS370), "Employee and Partner GST/HST Rebate Application", and Form VD358-V "Québec Sales Tax Rebate for Employees and Partners" for the QST rebate. See *Example 3* in the Appendix.

Employees can only file one Form GST370 (TPS370) and one Form VD-358-V for each calendar year and cannot claim a rebate for any expenses that have been previously rebated. Employees have up to four years from the end of the year to which the expenses relate to file an application.

Documentation

Employers – Form T2200/T2200S (Federal Income Tax Return) and TP-64.3-V (Quebec Income Tax Return)

Form T2200S and Form TP-64.3-V are used for employees to claim the actual amount of home office expenses and office supplies incurred in the 2020 tax year due to the COVID-19 pandemic. Those who wish to claim other type of employment related expenses that are beyond the scope of home office expenses and office supplies such as motor vehicle expenses must obtain Form T2200 and Form TP-64.3-V.

Employees – Form T777/T777S (Federal Income Tax Return) and TP-59-V/TP-59S (Quebec Income Tax Return)

Form T777S and Form TP-59S should be filed by employees to claim home office expenses and office supplies under **both the simplified method and the detailed method**. Those who wish to claim employment expenses beyond the scope of home office expenses and office supplies such as motor vehicle expenses should file Form T777 and Form TP-59-V with their income tax returns.

Employees – Form GST370/TPS370 (Federal)

Employees that wish to claim a rebate for GST/HST paid on deductible home office expenses are required to file GST370/TPS370 with their income tax returns.

Employees – Form VD-358-V (Quebec)

Employees that wish to claim a rebate for QST paid on deductible home office expenses are required to file VD-358-V with their income tax returns.

Employees must retain receipts and any other records to support work space expenses and home office supplies for a period of six years from the end of the last tax year they relate to. Employees must also retain the signed Form T2200/T2200S (TP-64.3-V) in case they are requested by the tax authority to support the claim for work space expenses and home office supplies.

Expense Deduction Example

The following example is used to illustrate how to determine and claim home office expenses and office supplies incurred during the period in which you were required to work from home in 2020.

Judy worked from home for 9.5 months (from March 15 to December 31) in 2020 and has incurred the following expenses related to her remote work arrangement:

- *A new office computer monitor for \$140;*
- *Stationery supplies such as printer ink, toner, and pens for \$113 (tax included);*
- *Business usage of cell phone costs of \$350;*
- *Rent on her apartment of \$900/month, of which 12% is considered to be her home office based on the percentage calculated below in Example 2*

Result

1. The cost of the monitor is a capital item and therefore is not deductible.
2. Stationery supplies of \$113 are deductible if used directly for employment activity. Judy may claim \$113 as a home office supply on Form T777S (TP-59S). Alternatively, Judy may claim \$97.37 stationary supplies on Form T777S (TP-59S) and claim a \$5.38 GST rebate ($\$113 \times (5/105)$) on Form GST370 (TPS370) and a \$10.25 QST rebate ($\113×0.0907) on Form VD-358-V upon filing her income tax return.
3. Business usage cell phone costs of \$350 are deductible as a home office supply on Form T777S (TP-59S) of Judy's income tax return. Alternatively, Judy may claim \$301.58 cell phone costs on Form T777S (TP-59S) and claim a \$16.67 GST rebate on Form GST370 ($\$350 \times (5/105)$) and a \$31.75 QST rebate on Form VD-358-V ($\$350 \times 0.0907$) for the tax paid on her cell phone costs.
4. Rent cost of \$1,026 is deductible as a home office expense ($\$900 \times 9.5$ months $\times 12\%$) on Form T777S of her income tax return. Residential rent is generally exempt from GST; thus, no amounts are included in Judy's GST rebate calculation in relation to rent.

Appendix

Example 1 – Simplified method

Jack worked from home from April 1 to May 31, 2020 due to COVID-19. During these months he worked exclusively from home and performed all his normal work duties from home. Jack went back to the office full-time on June 1, 2020 but worked from home for five days in each of June, July and August.

Result – because Jack worked more than 50% of the time from home for a period of at least four consecutive weeks in 2020 due to COVID-19, he is eligible to claim expenses related to his work space in 2020.

If Jack chooses to use the temporary flat rate (simplified) method, he can claim home office expenses for the 43 workdays worked from home for April and May, plus the 15 workdays worked from home for June, July and August for a total of 58 days. Jack would make this claim on Form T777S upon filing his 2020 income tax return and enter the amount of \$116 (58 days x \$2) into line 9939 on Form T777S.

Example 2 – Work space determination & Internet cost allocation

Judy uses her kitchen area of her apartment as her home office which represents approximately 20% of the total square footage of her apartment. Judy works approximately 40 hours per week in this area and estimates that the kitchen is used approximately 28 hours for personal use for the preparation and consumption of meals. The overnight hours or hours where the kitchen is not used are not included as these represent common use time.

Judy has incurred home internet costs of \$125/mo. She has tracked her usage of the internet for a two-week period on a daily basis and determined on a weekly basis she works and uses the internet 40 hours/week and watches Netflix 20 hours/week.

Result – based on these facts, Judy is considered to use the kitchen area as a work space at a ratio of approximately 12%. $(40/(40+28) \times 20\%)$.

Therefore, if Judy paid \$900/month in rent and began working primarily from home on March 15 until December 31, she would be eligible to claim 12% of this monthly rent expense for the 9 and a half months spent working from home. This would result in an eligible deduction of reasonable rent expense of \$1,026 $(\$900 \times 9.5 \text{ months}) \times 12\%$.

In addition, the business portion use of home internet is estimated to be 67% (40hrs/(40hrs+20hrs)). This would result in a monthly eligible deduction of \$84 ($\$125 \times 67\%$) of the home internet cost, and \$798 ($\84×9.5 months) for the entire period.

Overall, Judy would be eligible to claim a deductible work space expense of \$1,824.

Note – The CRA indicates on Form T777S that the denominator in the calculation above would be the total hours during the week (24x7=168) as opposed to the time the area was used. This would lower the eligible claim rate from 12% in the example above to 2.8%.

The CRA Example also included the cost of home internet cost with the cost of other utilities and thus applied the space factor to the work space to determine the deductible internet cost. This would result in a substantially lower deduction for home internet cost as a separate allocation method for home internet cost based on the measurable usage of this service was not considered.

We do not believe it is reasonable to include the overnight hours where the shared work space is not being used for either personal or business use and would contend the method outlined in the example is fair and reasonable based on jurisprudence under the law.

In addition, we do not believe it is reasonable to apply a work space area % to the use of home internet costs as this is not reflective of use of the service. We believe that measuring the actual use of internet through a measurement of time of usage would produce a result that is fair and reasonable based on jurisprudence under the law.

In a webinar hosted by the CRA on December 17, 2020, when a question was asked about the method of allocation, the CRA's comment was that a "fair and reasonable" method would be acceptable.

Example 3 – GST/QST Rebate

Kate lives in Montreal and paid \$115 (including GST and QST) for deductible home office expenses that she claimed on her 2020 income tax return.

Result – as an employee of a GST/QST registrant, Kate can claim a rebate on the GST paid by multiplying any deductible expenses where GST was paid by 5/105. In this case, $\$115 \times (5/105) = \5.47 . Kate can claim a rebate on the QST paid by multiplying any deductible expenses where QST was paid by 0.0907. In this case, $\$115 \times 0.0907 = \10.43 . Judy will then fill out Forms GST370(TPS370) and VD-358-V, attach a copy of

the forms to her income tax return and enter the amount claimed on line 45700 of her income tax return (for GST) and line 459 of her income tax return for QST. If Kate forgets to file a claim for the rebate, she will have until December 31, 2024 to file the GST and QST rebate applications relating to that expense.

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The advice contained herein is based on the facts and assumptions stated herein. You have represented to us that you have provided us with all facts and assumptions that you know or have reason to know are pertinent to this matter. If these facts and assumptions are not entirely complete and accurate, it could have a material effect on our advice. Our advice takes into account the applicable provisions and published judicial and administrative interpretations of the relevant taxing statutes, the regulations thereunder and applicable tax treaties. Our advice also takes into account all specific proposals to amend these authorities or other relevant statutes or tax treaties publicly announced prior to the date of our advice, based on the assumption that these amendments will be enacted substantially as proposed. Our advice does not otherwise take into account or anticipate any changes in law or practice, by way of judicial, governmental or legislative action or interpretation. These authorities are subject to change, retroactively and/or prospectively, and any such changes could have an effect on our advice and may result in incremental taxes, interest or penalties. Unless you specifically request otherwise, we will not update our advice to take any such changes into account.

If you carry on business or reside in Québec, Québec introduced legislation that prohibits a taxpayer who has carried out a transaction, or series of transactions, that is subject to a Revenu Québec final assessment based on the general anti-avoidance rule, from being able to obtain authorization from the Autorité des marchés publics (AMP) to bid for or obtain public contracts. The taxpayer will be listed in the Register of Enterprises Ineligible for Public Contracts for a period of five years from the time the name is entered on the list.

Advice relative to tax matters outside of Canada is based on tax advice provided by the KPMG International member firm in the particular country and on the relevant tax authorities in that country.

*Our advice is limited to the conclusions specifically set forth herein. We provide no advice and express no opinion with respect to any other federal, provincial or foreign tax aspect of the matters described herein, nor with respect to any legal or other matters other than those specifically addressed herein. The Canada Revenue Agency and/or any other relevant provincial tax authority and/or foreign tax authority and/or other governmental tax authority (collectively a **Tax or Revenue Authority**) could take a different position with respect to the matters addressed herein, in which case it may be necessary for you to defend this position on appeal from an assessment or litigate the dispute before the courts, including one or more appellate courts, in order for our advice to prevail. If a settlement were reached with a Tax or Revenue Authority or if such appeal and litigation were not, or were not entirely, successful, the result would likely be different from the advice we provide herein. Unless expressly provided for, our services do not include representation in the event of a challenge by a Tax or Revenue Authority or litigation before any court.*

Our advice is for the sole use of our client. The advice is based on the specific facts and circumstances and the scope of our engagement and is not intended to be relied upon by any other person. We disclaim any responsibility or liability for any reliance that any person other than our client may place on this advice.