



PRIVATE AND CONFIDENTIAL

Home Work Space Expenses and Certain Employment Supplies

2022 Taxation Year Guidelines

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Home Work Space Expenses and Certain Employment Supplies – 2022 Taxation Year

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Background

This general guidance (the “**Guidance**”) is provided in support of employees who worked at home in 2022 and may be eligible to deduct home office or home work space (collectively referred to herein as “**work space**”) related expenses and certain employment supplies on their tax returns. It is important for you to understand that as an employer, McGill University (“**McGill**”) does not assume any responsibility with respect to an employee’s personal income tax filing. Should further support be required, we recommend that you seek advice from a professional tax advisor.

Overview

As an employee, you may be able to deduct from your employment income certain home work space expenses and certain employment supplies related to working from home (collectively herein referred to as “**home office expenses**”). As a result of the pandemic, for the 2020 tax year, the Canada Revenue Agency (“**CRA**”) introduced a simplified process via two claim methods (herein referred to as “**simplified method**” and “**detailed method**”) for claiming a deduction for home office expenses working from home due to the COVID-19. The CRA has confirmed that these two methods would continue to be applicable for the 2022 tax year.

The use of the detailed method continues to rely on the availability of the employer issuing either Form T2200S, *Declaration of Conditions of Employment for Working at home Due to COVID-19* (“**T2200S**”) or Form T2200, *Declaration of Conditions of Employment* (“**T2200**”).

Although it has not yet been confirmed, it is anticipated that the 2022 tax year may be the last year in which Form T2200S will be available since it was specific to the circumstances arising as a result of COVID-19. This may also come with the elimination of the simplified method as this was intended to be a temporary measure of relief during COVID-19 where workplaces were closed due to the pandemic.

The issuance of Form T2200S was considered acceptable where an employee principally performs their work from home, which is generally considered to be 50% or more, due to COVID-19 for a period of a minimum of 4 weeks. Therefore, the threshold to issue Form T2200S was considered fairly low.

Going forward after the 2022 tax year where COVID-19 is no longer the basis of an employee working from home to the extent Form T2200S is no longer available, the higher level requirement to issue Form T2200 will need to be met to allow an employee to be in a position to deduct home office expenses.

Generally speaking, the issuance of Form T2200 requires the following attributes of the work relationship to be met:

- The employer and employee have agreed that the employee will work from home for a specified period that represents more than 50% of the time for a minimum of one month, either in writing or by way of verbal agreement;
- The work-space in your home was used to exclusively to earn employment income and the space was used regularly and continually for meeting clients, or other people while performing your employment duties;
- The employee was required through their contract of employment to incur costs related to their employment for which they were not fully reimbursed.

Eligibility Criteria

Simplified method – is referred to by the CRA as “temporary flat rate method”. To claim home office expenses under this method, you must meet **all** of the following conditions:

- You worked from home in 2022 due to the COVID-19 pandemic
- You worked more than 50% of the time from home for a period of at least four consecutive weeks in 2022
- You are not claiming any other employment expenses except for home office expenses
- McGill did not and will not fully reimburse you for these expenses.

Detailed method – to claim home office expenses under this method, you must meet **all** of the following conditions:

- You worked from home in 2022 due to the COVID-19 pandemic, or McGill required you to work from home
- You worked more than 50% of the time from home for a period of at least four consecutive weeks in 2022, or the work space in your home was used exclusively to earn employment income and the space was used regularly and continually for meeting clients, or other people while performing your employment duties
- You were required to pay for your home office expenses which were used directly in your work while carrying on your employment duties
- You have received a signed copy of Form T2200S or Form T2200 from McGill
- McGill did not and will not fully reimburse you for these expenses.

Deductible Home Office Expenses

“Home office expenses” include work-space-in-the-home expenses (herein referred to as “**work-space expenses**”), office supplies and other expenses such as certain phone expenses.

Simplified method – although under this method, you do not need to track the actual amount of expenses to calculate the claim for the home office expenses, there is a general expectation that you paid or contributed towards the payments of the home office expenses. This would include expenses paid in the name of the spouse but generally would not cover adult children working from their parents’ home unless it could be proven that the child contributed towards the payment of the work-space expenses.

Detailed method via Form T2200 – you must obtain the signed Form T2200 if you are claiming the actual amount of employment expenses beyond the scope of home office expenses, such as motor vehicle expenses or personal protection supplies used in your employment (i.e., disposable masks, disposable gloves and sanitizer). We have not covered the deductibility of these employment supplies in detail in this Guidance.

The following outlines the types of home office expenses that may be deducted by using the detailed method via Form T2200S.

General deductibility

You may only deduct home office expenses for the period during which you worked more than 50% of the time from home and you cannot claim expenses for other days that you worked from home that are not within that period.

Work-space expenses

You can deduct expenses you paid in 2022 for the employment use of a work-space in your home as long as the expenses were used directly in your work and McGill has not or will not fully reimburse you. See below ‘Determination of Work-Space Expenses’ for further guidance on how to calculate the claim amount of work-space expenses.

The deductible work-space expenses consist of the following types of expenses related to the use of a work space in your home:

- Electricity, cleaning costs, heat, and water
- Utilities portion (electricity, heat, and water) of your condominium fees
- Maintenance and minor repair costs
- Rent paid if your home is rented
- Home internet access fees.

Commission employee can claim additional types of work-space expense including property taxes and home insurance.

Work-space expenses do not include mortgage interest, principal mortgage payments, home internet connection fees, furniture, capital expenses (replacing windows, flooring, furnace, etc.) and wall decorations.

Office supplies

You may deduct the cost of certain office supplies you paid in 2022 if you used these supplies directly in your work while working at home and McGill has not or will not reimburse you.

Common office supplies that are deductible include stationery items, such as pens, stamps, folders, sticky notes, postage, printer paper, toner, and ink cartridges, etc.

Commission employee may also claim lease of certain devices (such as a computer, laptop, fax machine, etc.) that reasonably relate to earning commission income.

Office supplies do not include items such as headsets, charging or connecting cables, computer accessories, ergonomic foot rest, briefcases or calculators.

Phone expenses

You can deduct the costs of long-distance phone calls as long as the costs are reasonable, and the calls were made in relation to the performance of employment duties.

You can deduct a part of a basic cell phone service plan if all of the following conditions are met:

- The cost of the plan is reasonable
- The minutes or data were used for employment purpose
- The cost of the plan has been divided between employment use and personal use on a reasonable basis.

Commission employee may also claim the cost to lease a cell phone as long as the costs relate to earning commission income.

Determination of Work-Space Expenses

Step 1: to calculate the work-space expenses, you will firstly need to determine the percentage of your work space used for employment purpose (herein referred as “**employment-use percentage**”) based on the following:

- The type of work space used
- The percentage of your home used as a work space (herein referred to as “**work-space percentage**”)
- The percentage of time your work space is used for employment purpose (herein referred to as “**work-time percentage**”).

Types of work spaces

A common area – is a space that has other purposes besides your work. If you worked in a common area at home, your claim needs to be further factored by the work-time percentage. An example of a common work space would be use of the kitchen table which you use to conduct your employment duties and the area also is used for meal service.

A designated area – is a space you used only for work (for example, a spare room or dedicated office area). If you worked in a designated room, your claim is not affected by the number of hours you use the space for work.

Work-space percentage

Work-space percentage is generally determined based on the square footage of the work space in home as a percentage of the home’s total finished area square footage.

In a household where there are multiple employees sharing work space (either within a common area or a designated area), each employee will need to calculate their own work-space percentage within the shared work space.

Work-time percentage

General approach

The general approach adopted by the CRA in determining the work-time percentage for a work-space maintained within a common area in home is based on the numbers of hours worked within a calendar week. For example, if you worked 8 hours for 5 days during a week, the work-time percentage is calculated as: $(8 \text{ hours} \times 5 \text{ days}) / (24 \text{ hours} \times 7 \text{ days}) = 40/168 = \mathbf{23.81\%}$.

Alternative approach

The introduction of an allocation methodology presents a certain amount of subjectivity to the allocated use of common area space. Tax legislation and case law suggest that any allocation method that is used must be fair and reasonable. The CRA have stated that there may be more than one allocation that is considered fair and reasonable.

Based on case law one might consider that for areas of common use that may not be used at all times during the day or night, such as the living room, you would only include the time when the space is actually used (either for a personal or work use) in the denominator of the allocation analysis. Thus, for the overnight hours where the living room is not being utilized these hours would be excluded from the calculation.

Therefore, if you were to follow this position, which differs from the CRA published policy, in the example provided above where the daily usage hours for a common area, such as the living room, were perhaps only 14 hours and the overnight hours are 10 hours, the work-time percentage could be determined as: $(8 \text{ hours} \times 5 \text{ days}) / (14 \text{ hours} \times 7 \text{ days}) = 40/98 = \mathbf{40.82\%}$.

Note that this alternative approach would not be applicable for a shared use bedroom where the space is used for personal use in the overnight hours, but it is worth considering for work-space common areas that are not used in either a personal or work capacity overnight.

The following examples in this Guidance have been prepared using this alternative approach that extracts an estimated 10-hour overnight time (representing the period in which a common area is not utilized either for a personal or work use) per 24-hour period.

Example 1: calculation of employment-use percentage

Mary and Tom are a young couple who lived in a rented two-bedroom apartment in 2022. Mary has been working 5 days a week from home as an employee since the beginning of the pandemic, while Tom shifted to a hybrid working model beginning in 2022; working as an employee 3 days a week from home, and 2 days a week from his employer's office.

- *One of the bedrooms (accounted for 20% of their apartment's square footage) was exclusively used by Mary for work during the day and kept vacant in the evening and over the weekend.*
- *Tom set up a dedicated workspace in the living room, which accounted for 20% of their apartment's square footage, as his work space for 8 hours during the day on days he worked from home.*
- *The living room is used as family space outside Tom's working hours.*

Result: Based on the suggested allocation methodology, each of their employment-use percentage is calculated as follows:

- Mary used a designated area as her work space; thus, her employment-use percentage is only factored by a work-space percentage, which is **20%**.
- Tom used a common area as his work space, so his employment-use percentage is factored by both a work-space percentage and a work-time percentage, which equals: $10\% \times (8 \text{ hours} \times 3 \text{ days}) / (14 \text{ hours} \times 7 \text{ days}) = \mathbf{2.45\%}$.

Step 2: you will then need to gather the work-space expenses for:

- costs incurred for the entire home, and
- if applicable, maintenance costs solely incurred for a work space.

Step 3: finally, the work-space expenses are calculated as:

$$A \times B + C \times D1, \text{ or } A \times B + D2$$

A = Employment-use percentage

B = Work-space expenses for the entire home

C = Work-time percentage

D1 = Maintenance costs of work space (within a common area)

D2 = Maintenance costs of work space (within a designated area)

Example 2: calculation of work-space expenses

Continued with Example 1, Mary and Tom incurred the following costs related to their work space in home:

- *Rent: \$30,000*
- *Utility: \$3,000*
- *Internet: \$1,200*
- *Subtotal (with internet): \$34,200*
- *Subtotal (without internet): \$33,000*
- *Minor repairs to Mary's office: \$100*
- *Minor repairs to living room: \$80*

Result 1: Based on the suggested allocation methodology, Mary and Tom's work-space expenses are calculated as follows:

- Mary's work-space expenses: $20\% \times \$34,200 + \$100 = 6,940$.
- Tom's work-space expenses: $2.45\% \times \$34,200 + 10\% \times \$80 = \$846$.

Note that: under the above allocation method, the employment portion of internet costs are grouped together with the other expenses incurred for the entire home and then factored by both work-space percentage and work-time percentage.

Result 2: As aforementioned, the method to allocate work-space expenses is not defined in the legislation. For the purpose of determining the employment portion of internet use, an alternative approach may be based on the time when the internet is being used for business purposes in relation to the time used for personal purposes.

Assuming beyond the 8 working hours, both Mary and Tom spent 3 hours on the internet during the working day and 7 hours each day over the weekend, the ratio for prorating internet costs for employment use for Mary should equal: $(8 \text{ hours} \times 5 \text{ days}) / (8 \text{ hours} \times 5 \text{ days} + 3 \text{ hours} \times 5 \text{ days} + 7 \text{ hours} \times 2 \text{ days}) = 57.97\%$, while Tom's should equal: $(8 \text{ hours} \times 3 \text{ days}) / (8 \text{ hours} \times 3 \text{ days} + 3 \text{ hours} \times 5 \text{ days} + 7 \text{ hours} \times 2 \text{ days}) = 45.28\%$. Since Mary and Tom shared the work-usage time, the ratio should be further divided to appropriately distribute their usage (e.g., 60% to Mary and 40% to Tom). Mary and Tom's work-space expenses are calculated as follows:

- Mary's work-space expenses: $20\% \times \$33,200 + 60\% \times 57.97\% \times \$1,200 + \$100 = \$7,092$
- Tom's work-space expenses: $2.45\% \times \$33,200 + 40\% \times 45.28\% \times \$1,200 + 10\% \times \$80 = \$1,039$

Note that: if this approach is to be taken, you need to properly track the time of internet usage to establish the reasonableness of the allocation. In addition, to the extent that you upgraded to a higher internet speed to accommodate the need of video calls for employment purpose, the cost of the upgrade from one level of service to another may be fully attributed to an employment use.

Claim of Home Office Expenses

Home office expenses can be claimed using two methods provided that all of the eligible criteria aforementioned are satisfied.

Option 1 – Simplified method

Under the simplified method, you do not need to keep the documents to support your claim and you do not need to obtain the signed T2200S.

Claim amount

You can claim \$2 for each work day for a period in which you worked more than 50% of the time from home for at least four consecutive weeks, plus any other days you worked from home up to a maximum of \$500.

To reach the maximum claim of \$500, you will need to have worked 250 days from home in 2022. Note that work days do not include days off (weekend and statutory holidays), sick leave days, vacation days, and other leave or absence days.

For example, let's assume your province had 10 days statutory holidays in 2022 and you had 4-weeks of vacation and 5 days of sick or personal days off while working in a hybrid environment of 3 days/week working from home and 2 days/week working from your employer's work site. The total number of work days is calculated as: $(52 - 4) \text{ weeks} \times 3 \text{ days} - 10 \text{ statutory days} - 5 \text{ personal} = 129 \text{ days}$. As such, the maximum claim you can make using the simplified method is: $\$2 \times 129 \text{ days} = \258 .

How to claim

The deduction of home office expenses can be made by filing the claim under Option 1 of Form T777S, *Statement of Employment Expenses for Working at home Due to COVID-19* ("T777S") along with your 2022 income tax return.

Option 2 – Detailed method

Under the detailed method, you need to track the actual home office expenses and keep all your supporting documents including a signed T2200S or T2200 in a case you are eligible to claim other employment expenses (such as motor vehicle expenses or protective equipment) beyond the scope of home office expenses.

Claim amount

Under the detailed method via Form T2200S, you can claim the employment-use portion of home office expenses incurred during the days you worked more than 50% of the time from home. The total home office expenses are required to be broken out into the following categories:

- office supplies
- other expenses (cell phone and long-distance calls, etc.)
- work-space expenses¹

Under the detailed method via Form T2200, you can claim the employment-use portion of home office expenses along with other eligible employment expenses, the detail of which is not covered in this Guidance.

How to claim

The deduction of home office expenses can be made by filing the claim under Option 2 of Form T777S along with your 2022 income tax return.

If you have other types of employment expenses (beyond the scope of home office expenses) to claim, the claim can be made by filing Form T777, *Statement of Employment Expenses* (“**T777**”) along with your 2022 income tax return.

How to Claim Home Office Expenses in Quebec

If you are a resident in Quebec for the purpose of the 2022 tax year, besides the federal forms described above, you also need to obtain or file the following forms with Revenu Quebec:

- Form TP-64.3-V, *General Employment Conditions* – this is a harmonized form of T2200S and T2200
- Form TP-59.S-V, *Expenses Related to Working Remotely Because of the COVID-19 Pandemic* – this is the equivalent form of T777S
- Form TP-59-V, *Employment Expenses of Salaried employees and Employees Who Earn Commissions* – this is equivalent form of T777

¹ The total deduction of work-space expenses is limited to the employment income to which the expenses related.

Frequently Asked Questions

1. To be eligible for the claim of home office expenses, did I have to be required by the employer to work from home?

If you were not required to work from home, but the employer provided you with the choice to work at home because of the COVID-19 pandemic, then the CRA will consider you to have worked from home due to COVID-19.

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2. Is the deduction calculated using the simplified method by individual or by household?

Each employee working from home who has paid or contributed towards home office expenses and meets the eligibility criteria can use the simplified method to calculate their deduction for home office expenses.

3. Can I still claim \$2 a day if I did not work full day at home?

Yes, you can still claim the \$2 a day if you meet the eligibility criteria.

4. What if I was reimbursed for some of my home office expenses, can I still use the simplified method?

Yes, you can as long as your home office expenses were not and will not be fully reimbursed.

5. What types of expenses are covered by the simplified method?

The same types of expenses as covered by the detailed method via T2200S, which include work-space expenses, office supplies and certain phone expenses.

6. Can I claim the deduction of home office expenses using the simplified method if I worked from my parent's home?

Yes, however only if you paid or contributed towards the payment of the home office expenses and have documentary evidence to support such payment if requested by the CRA.

"

7. Am I eligible for claiming home office expenses if my written contract of employment does not specify that I am required to pay for home office expenses that are used for carrying on employment duties?

It is in the CRA's administrative position that the requirement for an employee to pay for home office expenses can be implied, and the requirement may be considered to have satisfied where it was understood by the employee and the employer that the payment of such expenses was to be made by the employee in order to carry out the duties of employment.

8. If my spouse and I both worked from home and both meet the eligibility criteria, how do we each calculate our work-space expenses using the detailed method?

The CRA generally allows some flexibility in letting you and your spouse decide how to share eligible work-space expenses, as long as you meet **all** of the following requirements:

- you or your spouse must have paid the expenses yourselves or on a combined basis
- you reduce the amount of any expense by the amount of any reimbursement that either you or your spouse received for the expense
- the expense is claimed as a deduction only once.

9. Can I claim disposable masks, disposable gloves and sanitizing liquid that I purchased and used at work?

It is the CRA's view that in the context of the current COVID-19 pandemic, where an employer requires an employee to pay for and use disposable masks, disposable gloves, sanitizing liquid and other similar items while carrying out their employment duties, the cost of these items would be deductible if **all** the following conditions are met:

- the cost of the items used in the year are reasonable
- the employee did not receive a reimbursement or is not entitled to receive a reimbursement from their employer
- the employee has a completed and signed Form T2200 from their employer.

10. If I am eligible for deductions of home office expenses using the detailed method via Form T2200S and I also incurred other eligible employment expenses beyond the scope of home office expenses, do I need to also obtain a signed Form T2200?

It is the CRA's administrative position that if employees have eligible claims for both home office expenses and other employment expenses not related to their work at home, they should obtain a signed Form T2200.

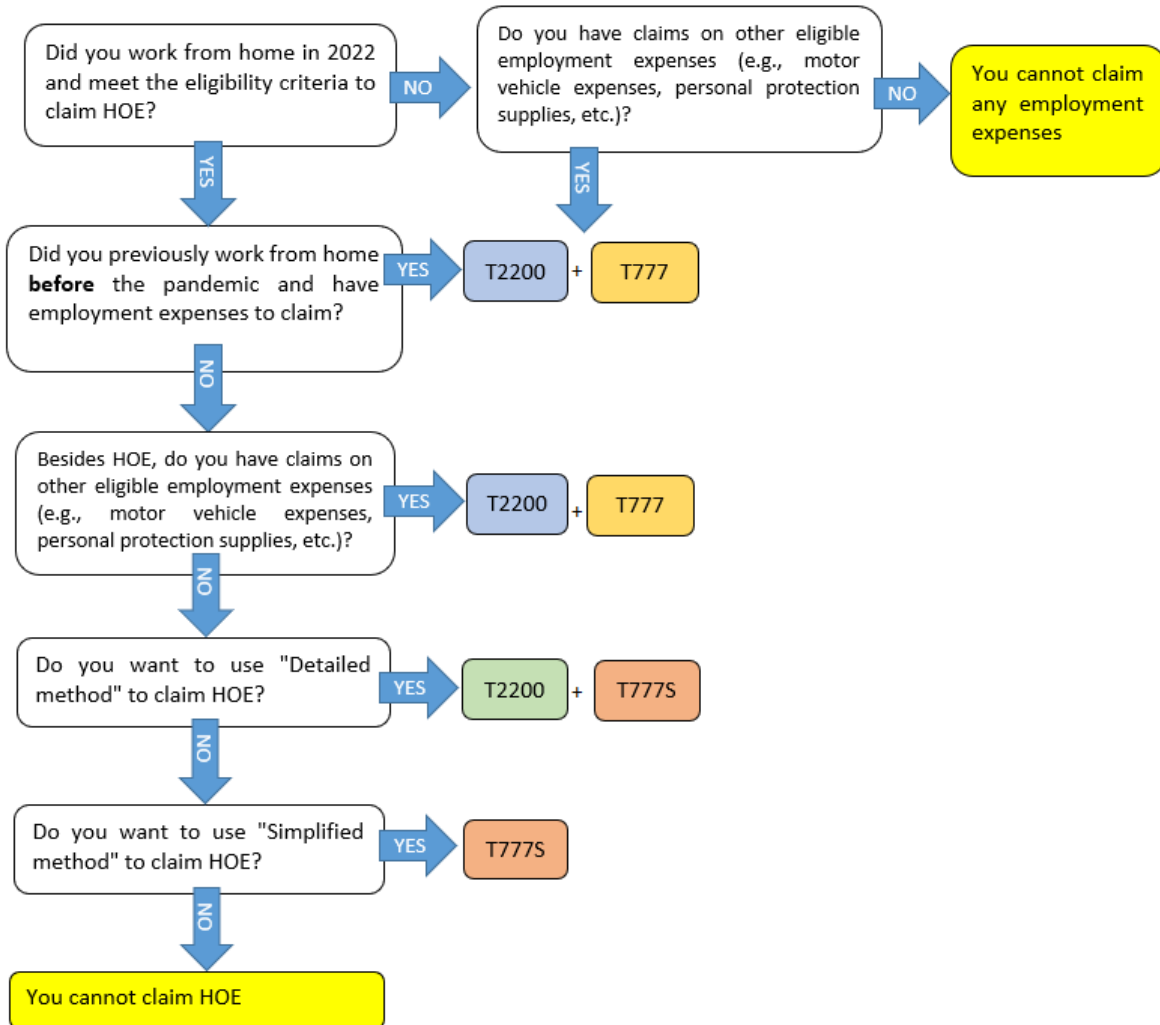
11. Does receiving a signed Form T2200S or T2200 mean the claim of employment expenses will be accepted by the CRA?

Although the signing of Form T2200S or T2200 is required from the employer for you to make the claim of home office expense or other employment-related expenses, a signed Form T2200S or T2200 does not provide the guarantee that any of those claims will be accepted upon the CRA's

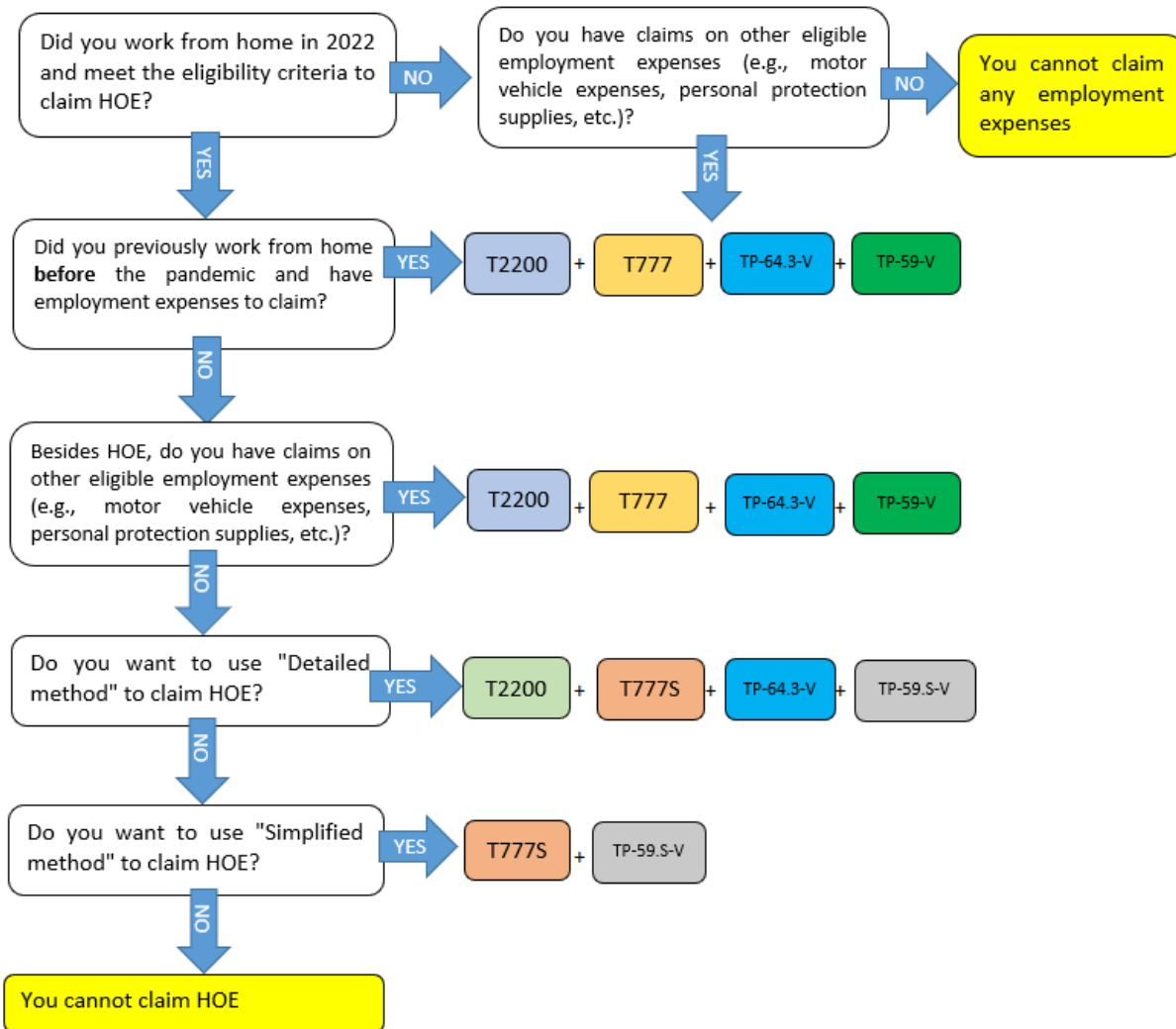
review. The onus is on the employee to properly determine their eligibility and deductibility of home office expenses and supplies or other employment-related expenses.

Appendix A – Flowchart : How to Claim Home Office Expenses (2022)

Residents in Provinces and Territories other than Quebec



Residents in Quebec



Tax Disclaimer

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.