

COVID-19: CRA ANNOUNCED CHANGES IN CLAIMING EMPLOYMENT EXPENSES RELATED TO WORKING FROM HOME

As a result of the unprecedented challenges due to COVID-19, the Canada Revenue Agency (CRA) has introduced two methods that are available to employees in order to claim the deduction for home office expenses.

Under existing rules, employees are eligible to claim a deduction for home office expenses for the period they worked from home, if they meet the following criteria:

- The employee worked more than 50% of the time from home while performing the duties of employment; or
- The work space is both used exclusively during the period to which the deductible expenses relate for the purpose of earning income from employment and is used on a regular and continuous basis for meeting customers or other persons in the ordinary course of performing the duties of employment.

The employer must also certify on form T2200 that the employee was required to maintain the home office and that the employee was not entitled to be reimbursed for the costs.

In order to make available the home office deduction to a larger number of Canadians and to simplify the claim process for the eligible employees that worked from home during 2020 due to the COVID-19 pandemic, CRA introduced two new methods to compute the home office expenses.

The two new COVID-19 specific options -offered only for the 2020 taxation year- available for employees to claim a home office deduction are:

- (i) the Temporary Flat Rate Method, and
- (ii) the Detailed Method

These two methods are in addition to the Standard method which is the existing method.

Employees are eligible to claim a deduction for home office expenses for the period they worked from home, if the employees meet all of the following criteria:

- employees worked from home in 2020 due to the COVID-19 pandemic or the employer required the employees to work from home
- Employees worked more than 50% of the time from home for a period of at least four consecutive weeks in 2020
- have a completed and signed Form T2200S or Form T2200 from the employer (only applicable if the detailed method is used to complete the claim)
- the expenses are used directly in the employees work during the period.

The use of a shorter qualifying period will ensure that more employees can claim the deduction than would otherwise have been possible under longstanding practice.

Temporary Flat Rate Method

This method is based on the number of days the employee was required to work from home due to COVID-19 in 2020.

It is a computation per employee and not per workspace. This means that two eligible employees sharing the same workspace will each be entitled to the deduction.

Eligibility

- Employee worked from home in 2020 due to the COVID-19 pandemic, whether it was mandatory or optional;
- Employee worked more than 50% of the time from home for a period of at least 4 consecutive weeks in 2020;
- Employee is only claiming home office expenses and is not claiming any other employment expenses; and
- Employer did not reimburse employee for all of the home office expenses.

Where the employee meets all of the above criteria, he or she may deduct home office expenses for the total number of eligible days worked from home in the 2020 calendar year up to a maximum of 200 days.

Computation

$\$ 2.00 \times \text{Number of eligible days} = \text{total amount employee can claim}$

Limit: \$400 (200 business days) per employee

ELIGIBLE DAYS	NON-ELIGIBLE DAYS
DAYS EMPLOYEE WORKED FULL-TIME HOURS FROM HOME	DAYS OFF
DAYS EMPLOYEE WORKED PART-TIME HOURS FROM HOME	VACATION DAYS
	SICK LEAVE DAYS
	OTHER LEAVE OR ABSENCE

Employee obligations

The employee must file Form T777S – Statement of Employment Expenses for Working at Home Due to COVID-19 with his or her 2020 income tax return, and indicate that he / she is using Option 1 – Temporary flat rate method.

Employer obligations

The employer is not required to provide any form when this method is chosen.

Detailed Method

Similar to the Standard method, the detailed method provides a deduction for amounts actually incurred for eligible home office expenses in proportion to their use for work purposes.

Eligibility

- Employee worked from home in 2020 due to the COVID-19 pandemic, whether it was mandatory or optional, or employee is required to work from home¹;
- Employee was required to pay for expenses related to the work space at home;
- The workspace is where the employee mainly (more than 50% of the time) works for a period of at least 4 consecutive weeks or employee only uses work space to earn employment income and uses it regularly and continually for meeting clients;
- The expenses are used directly for work purposes; and
- Employee has a completed and signed copy of Form T2200S, from the employer

Expenses that can be claimed

By using the Detailed method, an employee may claim a deduction exceeding the \$ 400 limit provided for under the Flat rate method, as long as he or she complies with the more onerous requirements of this method. It should be noted that the CRA has made available to taxpayers a calculator designed to calculate the deduction as well as a simplified version of the forms.

EXPENSES	EXPENSES ONLY COMMISSION EMPLOYEES CAN CLAIM	EXPENSES THAT CANNOT BE CLAIMED BY SALARIED EMPLOYEES / COMMISSION EMPLOYEES
<ul style="list-style-type: none"> - Electricity - Heat - Water - Utilities portion of the condominium fees calculated using a reasonable basis and only if it is not paid directly to services providers² - Home internet access fees if the cost of the plan is reasonable (does not include connection fees and fees related to the lease of a modem/router) - Maintenance and minor repair costs that relate to the work space - Rent paid for a house or apartment where the employee lives (a home owner may not claim the rental value) 	<ul style="list-style-type: none"> - Home insurance - Property taxes - Lease of a cell phone, computer, laptop, tablet, fax machine, etc. that reasonably relate to earning commission income 	<ul style="list-style-type: none"> - Mortgage interest - Principal mortgage payments - Home internet connection fees - Furniture - Capital expenses - Wall decorations

¹ May be a written or verbal agreement. It does not have to be part of the employment contract.

² CRA's calculation formula: <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/line-229-other-employment-expenses/work-space-home-expenses/expenses-can-claim.html#fn1>

Office supplies and phone expenses

The CRA allows the deduction of expenses related to certain office supplies (list) used directly in the course of the employee's work, in proportion to their use for that purpose.

The CRA also allows the deduction of the basic cell phone service plan if:

- The cost of the plan is reasonable;
- The cost of the plan has been reasonably apportioned between employment and personal use; and
- The employee is able to show the cellular minutes or data consumed directly while performing the employment duties, as well as the cost of the minutes or data.

Limits

While this method does not limit the employee to a deduction of up to \$ 400, there are restrictions.

1. The expenses reimbursed by the employer are not eligible³.
2. The employee can only claim the expenses paid in the part of the year he or she worked from home.
3. If an employee has multiple income sources, he or she may only claim from the income the expenses relate to, and not from any other income.
4. The deduction may not exceed the employment income. The expenses that couldn't be claimed can be carried forward to the following year as long as income from the same employer is reported. Said expenses may not create or increase a loss from employment.

Employee Obligations

The employee must do an assessment of his or her workspace. Once the dimensions have been determined, a CRA calculator is made available to the employee to calculate the deduction to which he or she is entitled.

The employee working from home due to the COVID-19 pandemic who is only claiming home office expenses must file the Form T777S – Statement of Employment Expenses for Working at Home Due to COVID-19 with his or her 2020 income tax return, and use "Option 2- Detailed Method". Alternatively, the employee that wishes to claim other employment expenses (for example motor vehicle expenses), must complete Form T777 to claim the home office expenses.

The employee must also obtain the Form T2200S – Declaration of Conditions of Employment for Working at Home Due to COVID-19, but does not include it in the tax return. The employee must keep this form and the supporting documents for a period of six years, and provide them upon request by the CRA. Alternatively, the employee could obtain the Form T2200 completed and signed from the employer.

³ It should be noted that a new CRA policy applicable in the context of COVID-19 allows the employer to pay or reimburse up to \$ 500 of computer hardware or home office equipment per employee without it being considered a taxable benefit. However, the reimbursement of such expenses otherwise eligible for the Detailed method will have to be reported on Form T2200S or T2200.

Employer obligations

The employer must complete and sign the Form T2200S, or Form T2200.

The Form T2200S certifies that the employee actually worked from home in 2020 due to COVID-19 and that the employee was required to pay some or all of his or her home office expenses.

It is a shorter version of Form T2200. The 13 sections of the standard form are replaced with the 3 following questions:

- Did the employee work from home due to COVID-19?
- Did you or will you reimburse this employee for any of their home office expenses?
- Was the amount included on this employee's T4 slip?

The employers do not have a legal obligation to complete the form, but the CRA expects them to accept to complete the form when the employee is, in fact, eligible.

Comparison of the methods

	TEMPORARY FLAT RATE METHOD	DETAILED METHOD	STANDARD METHOD
Eligibility	Employee works from home due to COVID-19	Employee works from home due to COVID-19 or is required to work from home according to an employment agreement	General regime for employee who has to pay for eligible expenses under the terms of his or her employment contract
Basis for claim	Number of eligible days	Eligible expenses	Eligible expenses
Eligible expenses		<ul style="list-style-type: none"> • Certain home office expenses • Certain office supplies expenses • Certain phone expenses 	<ul style="list-style-type: none"> • Certain home office expenses • Other expenses that relate to the employment (e.g. motor vehicle expenses)
Maximum	\$ 400 per employee		
Reimbursement	Employer must not have reimbursed all of the expenses	Reimbursed expenses are not eligible	Reimbursed expenses are not eligible
Employer obligations		<ul style="list-style-type: none"> • Complete and sign T2200S • Electronic signature accepted for the 2020 taxation year 	<ul style="list-style-type: none"> • Complete and sign T2200 • Electronic signature accepted for the 2020 taxation year
Employee obligations	File T777S	<ul style="list-style-type: none"> • Assessment of workspace • File T777S • Keep T2200S and supporting documents for 6 years 	<ul style="list-style-type: none"> • Assessment of workspace • File T777 • Keep T2200 and supporting documents for 6 years

For more information, visit the CRA website.

Revenu Quebec⁴

Revenu Quebec has also implemented a simplified version of the forms. The terms and conditions have been harmonized with those of the CRA.

The employee may choose the Flat rate method or the Detailed method. A calculator has been made available to taxpayers to see which method is best for them.

The employee must file Form TP-59.S – Expenses Related to Working Remotely Because of the COVID-19 Pandemic with his or her income tax return. If the temporary fixed rate method is used, the employee needs to complete only Part 1 and Part 2 of Form TP-59.S. If the detailed method is used, the employee needs to complete Part 1 and Part 3 of Form TP-59.S. If the employee incurred other types of employment expenses, Form TP-59 should be used instead.

If the Detailed method is chosen, the employee must also attach the Form TP-64.3-V – General Employment Conditions duly completed and signed by the employer and keep the supporting documents. Electronic signatures are accepted on the form TP-64.3 as long as the COVID-19 health emergency is in effect.

In order to make the process easier for employers, an online service is now available for employers to order prefilled TP-64.3-V forms (in French only).

⁴REVENU QUÉBEC, Expenses Related to Working Remotely Because of the COVID-19 Pandemic, online: <<https://www.revenuquebec.ca/en/online-services/forms-and-publications/current-details/tp-59-s/>> and COVID-19: FAQ for Individuals, online: <<https://www.revenuquebec.ca/en/coronavirus-disease-covid-19/faq-for-individuals/>>