

Can I claim my home office expenses on my tax return?

The opportunity to deduct home office expenses on personal tax returns has become a popular topic as more and more employees are working from home as a result of COVID-19. Whether you may claim home office expenses depends on a variety of factors.

Who can claim home office expenses?

1. Employees who earn a salary who are required to work from home;
2. Employees who earn commissions who are required to work from home and earn commission income from employment;
3. Self-employed individuals.

Self-employed individuals and employees earning commission or salary income may deduct home office expenses related to use of a workspace in the home where one of two conditions are met:

1. The workspace is used 'principally' (more than 50 per cent of the time) to perform the duties of office or employment; OR
2. The workspace is used 'exclusively' to earn employment or self-employment income. It must also be used on a regular and continuous basis to meet with customers or clients in the course of performing employment duties.

The word 'principally' in the first condition considers how the workspace is used to perform employment duties over the full period of employment/self-employment in the calendar year, rather than just the part of the year the employee is required to work from home. Accordingly, employees who are required to work from home for less than 50 per cent of the year may not be able to deduct their home office expenses. This condition does permit occasional use of the space for personal reasons.

The second condition requires the workspace to be used exclusively for work. According to the CRA, 'meeting with customers or clients' generally means a physical face to face encounter by accident or design. While some informal Tax Court of Canada decisions have held that this phrase may include meetings held by phone; the CRA stresses that informal Tax Court decisions are not precedent setting and therefore not binding on the CRA. As such, virtual meetings that enable remote work while respecting physical distancing during a pandemic may or may not help meet this condition.

Whether you earn salary or commission income from employment, or both, you must meet the following additional criteria before home office expenses related to the employment can be claimed:

- Your employer must require you to maintain a home office as part of your contract of employment;
- Your employer must not reimburse you for those expenses; and
- You must fill out and have your employer sign, Form T2200, Declaration of Conditions of Employment.

What expenses can be claimed?

The rules for claiming home office expenses depend on whether you are self-employed or an employee:

1. Salaried employees who are required to work from home may claim expenses for utilities, supplies and minor repairs and maintenance related to the home office.
2. Commission based employees who are required to work from home can add property taxes and insurance to the list of deductible home office expenses.
3. Self-employed individuals can also claim mortgage interest and capital cost allowance, in addition to the expenses that employees can claim as just described.

If you are renting your home, you can deduct part of your rent as well as any otherwise allowable costs as they relate to the workspace.

How are the deductible portion of expenses calculated?

If your home office qualifies for the tax deduction, you can claim a portion of your household expenses. For example, if your home office takes up 10 percent of the square footage of your home, you can claim 10 percent of utilities, insurance, property tax and mortgage interest.

Use a reasonable basis such as the square footage of the workspace area as a proportion of the total finished area of your home (including common spaces such as hallways, bathrooms, kitchens, etc.) when calculating the percentage of home expenses that are deductible. Claiming rounded or inflated home office expenses may well trigger an audit!

It may not always make sense to use a percentage to allocate a portion of your home maintenance costs to an employee's home office expense. If the expenses paid were to maintain a part of the house that was not used as a workspace, such as paint for the kids' bedrooms, none of those expenses should be allocated to the home office expense. The costs to paint your home office, however, that you use 80% for work purposes, may be claimed at the rate of 80%.

You can also fully deduct the cost of supplies related to your home office, such as pens, pencils, paper clips, stationery and stamps, and cleaning services. Chairs, desks and filing cabinets are capital in nature and while not immediately deductible, they are capitalized and then depreciated over time according to the capital cost allowance mechanism for the relevant capital asset class.

You may not be able to claim the entire amount of your home office expenses in one tax year, especially if you started a new job or business late in the year. The claim is limited to the amount of employment or self-employment income remaining after all the other allowable expenses have been claimed. In other words, neither employees nor self-employed individuals may create a loss from claiming home office expenses to be used against other forms of taxable income; excess home office expenses can be carried forward and applied to future years.

Where do we go from here?

A signed Form T2200 Declaration of Conditions of Employment from an employer is not filed with the taxpayer's personal income tax return, but rather must be kept on file should CRA request it. By signing the form, the employer certifies that the employee meets the conditions prescribed in the Income Tax Act. Employers must be reasonably certain that the employee meets the conditions before signing Form T2200. For the employee to claim the deduction, however, he or she must be able to demonstrate that all of the requirements have in fact been met.

While the list of deductible home office expenses for non-commission employees is limited, every dollar counts in uncertain economic times. Employees should maintain records of their eligible home office expenses and approach their employers about the wording in their employment contracts and about completing Form T2200 to support deductions taken in respect of work from home policies established in response to COVID-19.

The CRA is being asked to consider the requirements around home office expense deductibility given the impacts of the pandemic. Our team is watching for changes in administrative policy or even legislation. If you have questions regarding this topic, or other tax, retirement and estate planning matters, please contact your Investment Advisor or your CI sales representative to learn more.

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