

Deduction of Home Office

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



- 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
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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 t

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;
- Stationary 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 ($\113×0.0907) on Form VD-358-V upon filing her income tax return.
3. Business usage cell phone costs of \$350 are deductible as a home office supply on Form T777S (TP-59S) of Judy's incometax return. Alternatively, Judy may claim \$301.58 cell phone costs on Form T777S (TP-59S) and claim a \$16.67 GST rebate on Form GST370 ($\$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.

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 ($24 \times 7 = 168$) 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

