

CME GUIDE

THE EMPLOYEE WORK-SPACE-IN-THE-HOME EXPENSE DEDUCTION AND EMPLOYER COMPLIANCE, AND NEW T4 SLIP REPORTING REQUIREMENTS

Guidance for manufacturers and their employees on the availability of the employee work-space-in-the-home expense deduction and changes to compliance measures during the COVID-19 pandemic. This guide also provides an overview of new T4 slip reporting requirements for the 2020 tax year.

BACKGROUND

Millions of Canadians switched to working remotely at the start of COVID-19 pandemic, and only a fraction have returned to full-time office work. Under the Income Tax Act, employees who are required to pay their own employment expenses that are not reimbursed by their employer may be eligible to claim a deduction on their return for such expenses. This is known as the [work-space-in-the-home expense](#) deduction.

Typically, for employees to submit a valid claim, employers need to provide a properly completed and signed Canada Revenue Agency (CRA) Form [T2200, Declaration of Conditions of Employment](#). If the employee lives in Quebec, the employer must also fill out Form [TP-64.3-V, General Employment Conditions](#).

However, the sheer number of employees working remotely during the pandemic has led CRA to simplify the rules for the 2020 tax year. There are now two methods to claim the deduction: a new temporary flat rate method and the existing detailed method.

CRA has created a [calculator](#) to help employees determine which method to choose and the amount they can claim.

TEMPORARY FLAT RATE METHOD

An employee is eligible to claim the deduction through the temporary flat rate method if they meet the following criteria:

- 1) They worked from home in 2020 due to the COVID-19 pandemic.
- 2) They worked more than 50% of the time from home for a period of at least four consecutive weeks in 2020.
- 3) They are only claiming home office expenses and are not claiming any other employment expenses.
- 4) Their employer did not reimburse them for all their home office expenses.

If the employee meets these criteria, they can claim \$2 for each day they worked from home in 2020, up to a maximum of \$400.

Under this method, the employer is not required to complete and sign Form T2200. The employee is also not required to keep documents to support their claim.

DETAILED METHOD

Employees with larger claims for home expenses may be eligible to use the existing detailed method to calculate their home office expenses deduction. To claim the actual expenses that employees paid for while they worked from home, the following conditions must be met:

- 1) They worked from home in 2020 due to the COVID-19 pandemic or their employer required them to work from home.
- 2) They were required to pay for expenses related to the work space in their home.
- 3) The work space is where they worked more than 50% of the time for a period of at least four consecutive weeks or they only use their work space to earn employment income, which may include using it to regularly meet clients, customers, or other people while doing their work.
- 4) The expenses are used directly in their work.
- 5) Their employer has completed and signed either [Form T2200S, Declaration of Conditions of Employment for Working at Home Due to COVID-19](#) or Form T2200.

EMPLOYER COMPLIANCE—FORM T2200S

Form T2200S is a shorter and simplified version of Form T2200 that the employer will use for employees that choose the detailed method to calculate their home office expenses. The employer will fill out this form upon request, and it will require them to verify the following details:

- 1) Employee information.
- 2) If the employee was required to work from home due to COVID-19.
- 3) If the employer reimbursed the employee for any of their home office expenses and, if yes, if this amount was included on their T4 slip.

INFORMATION FOR EMPLOYEES USING THE DETAILED METHOD

Required Information and Documentation

If an employee meets the criteria to qualify for the deduction and chooses the detailed method, they will need the following information:

- 1) Total size of their work space.
- 2) Total size of all finished areas within their home.
- 3) Supporting documents for all expenses that can be claimed.
- 4) Documents that show their employment income and deductions (T4 slip).
- 5) Form T2200S signed and completed by their employer.

Eligible Expenses

The following expenses can be claimed:

- Rent paid for a house or apartment where they live
- Utilities (electricity, heat, and water) or utilities portion of condominium fees
- Maintenance and minor repair costs
- Home internet access fees
- Office supplies
- Employment use of a basic cellphone service plan
- Long distance calls for employment purposes

The following expenses cannot be claimed:

- Mortgage interest
- Principal mortgage payments
- Capital expenses (replacing windows, flooring, furnace, etc.)
- Office or computer equipment
- Furniture
- Monthly basic rate for a landline telephone
- Cell phone connection or license fees
- Home internet connection fees

Limitations

First, the expenses that can be claimed are limited to the part of the year that the employee worked from home.

Second, expenses related to utilities, maintenance, and rent must be allocated on a “reasonable basis.”

This is done by taking the work space area and dividing it by the total finished area of the home (including hallways, bathrooms, kitchens, etc.). For example, if the office space makes up 10 per cent of the living space, then the employee may deduct 10 per cent of their utility payments.

However, in some instances, it may not be appropriate to use this methodology to deduct maintenance costs. CRA uses the example of a situation where expenses are incurred to maintain a part of the house that was not used as a work space. In such a situation, these expenses cannot be deducted. Alternatively, if the expenses paid were to maintain just the work space, then the employee may be able to deduct all or most of them.

Third, the employee can only deduct work space expenses from the income to which the expenses relate, and not from any other income.

Fourth, the amount that can be deducted for work-space-in-the-home expenses is limited to the amount of employment income remaining after all other employment expenses have been deducted. This means that the employee cannot use work space expenses to create or increase a loss from employment.

Finally, If the employee cannot deduct all their work space expenses in the year, they can carry forward the expenses. However, they can deduct these expenses in the following year only if they are reporting income from the same employer.

ALLOWANCES AND REIMBURSEMENTS

With so many Canadians working from home during the COVID-19 pandemic, some employers have offered to reimburse employees for work-from-home-related expenses.

Generally, an allowance or reimbursement is a taxable benefit and must be reported as income. However, the CRA has recognized that the unique circumstances of this year forced many workers to purchase computer equipment and home office furniture to facilitate working remotely for their employers. Accordingly, the CRA has made an exception for the 2020 calendar year and will allow reimbursements or allowances of up to \$500 (coupled with proof of purchase) to be granted on a tax-free basis, provided that the computer and home office equipment is necessary to enable the employee to immediately and properly perform their job and that the expenditure is primarily for the employer's benefit.

NEW T4 SLIP REPORTING REQUIREMENTS FOR THE 2020 TAX YEAR

The CRA has also recently introduced additional reporting requirements for the 2020 [T4 Statement of Remuneration Paid \(slip\)](#). These reporting requirements apply to all employers and are designed to help the CRA validate payments under the Canada Emergency Wage Subsidy (CEWS), the Canada Emergency Response Benefit (CERB), and the Canada Emergency Student Benefit (CESB).

For the 2020 tax year, in addition to reporting yearly employment income in Box 14 or Code 71, employers will also be required to report employment income for specific pay periods that align with the Government of Canada's support payments. Accordingly, the CRA has added the following four new codes:

- Code 57: Employment income – March 15 to May 9
- Code 58: Employment income – May 10 to July 4
- Code 59: Employment income – July 5 to August 29
- Code 60: Employment income – August 30 to September 26.

The new requirement means employers must report income and any retroactive payments made during these periods.

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