



CESTNICK

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## TAX MATTERS

# A tale of three employees and their tax savings working from home.

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As you look to maximize your tax savings for 2020 by claiming home office expenses, consider the tale of three different employees that I'll share today. Keep in mind, the taxman is allowing employees who worked from home at least half the time for four consecutive weeks or more in 2020, to make a simplified claim of up to \$400 (\$2 for each day of working from home to a maximum of \$400). This is called the "flat rate method" of claiming home office expenses. Alternatively, you can use the "detailed method," which is available if you meet the same "at-least-half-the-time-for-four-consecutive-weeks" criteria. Consider the stories.

### WENDY'S STORY

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Wendy is an employee who earns a salary. Since March, 2020, she has worked most of the time from home, which she owns. She meets the test for claiming home office costs. Should she use the flat rate method and claim \$400, or the detailed method?

If the detailed method provides a larger deduction, she'll want to use it. The table shows the math. As a salaried employee, she can claim a portion of her utilities, including hydro, heat, and water. She can also claim a portion of repairs and maintenance on her home, and a portion of her internet access.

She'll have to prorate all the costs above for the percentage of her home space that is used for work and based on the time that space is used for work versus personal use. In her case, her office is 400 square feet while her total home is 3,000 square feet – or 13.3 per cent of her home. Also, she works 40 hours a week at her home office of a total 168 hours in a week – which is 23.8 per cent of the time.

In addition, she incurred some costs that don't have to be prorated, including office supplies and her cellphone plan. She wasn't reimbursed for these costs by her employer, so she can claim them.

You'll see from the table that Wendy can claim total home office expenses of \$1,003 for 2020. Since this is higher than the \$400 available under the flat rate method, she'll choose to use the detailed method to make her claim.

### **IAN'S STORY**

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Like Wendy, Ian meets the tests for working from home, and owns his home. He's a little different in that he's an employee who earns commissions. This allows him to add a portion of property taxes and home insurance to his claim (see the table). Otherwise, I have assumed costs identical to Wendy. The bottom line for Ian is that his home office expense claim will be \$1,162 – a little higher than Wendy's. Unfortunately, employees – regardless of how they are compensated – are not allowed to claim a portion of mortgage interest or principal payments.

### **SARAH'S STORY**

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Like Ian and Wendy, Sarah is an employee who meets the test for claiming home office expenses since she worked from home for most of 2020. Unlike the others, she rents her home. She also pays her utilities. While she won't likely have some of the same costs as the others, she'll have a sizable amount of rent she paid in 2020 that, interestingly, provides her with a tax deduction of \$1,816 for 2020 – more tax savings than the other two. If she did pay for repairs or maintenance, those costs can be included. Tenants insurance would also be deductible.

### **MORAL OF THE STORIES**

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You'll notice that renters will probably end up with a larger deduction overall than owners because a portion of rent is deductible, while mortgage principal and interest are not. Note also, in the case of Wendy and Ian, it's the costs that are not prorated (office supplies and cell phone) that push them over \$400 in total expenses to be claimed. If you just look at the prorated costs, they don't add up to \$400 on their own in the examples of Wendy and Ian. So, the flat rate method of \$400 could provide a bigger deduction in some cases.

You may want to use CRA's online calculator (go to [canada.ca](https://canada.ca) and enter "home office expense calculator" in the search field) to help with the math and decide on using the flat rate or detailed method. Finally, if you're going to choose the detailed method, use Form T777S or T777 to list your expenses, and have your employer sign Form T2200S or T2200, which you should keep on hand in case the taxman wants to see it.

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**Home Office Expense Claim  
Three Scenarios**

		<b>Wendy</b>	<b>Ian</b>	<b>Sarah</b>
		<b>Salaried Employee</b>	<b>Commissioned Employee</b>	<b>Salaried Employee</b>
		<b>Owner</b>	<b>Owner</b>	<b>Renter</b>
<b>Home Office Expenses:</b>				
Rent		n/a	n/a	27,600
Mortgage Interest		Cannot claim	Cannot claim	n/a
Mortgage Principal Payments		Cannot claim	Cannot claim	n/a
Property Taxes		Cannot claim	3,000	n/a
Home Insurance		Cannot claim	2,000	n/a
Capital Cost Allowance		Cannot claim	Cannot claim	n/a
Hydro		1,200	1,200	1,200
Heat		1,200	1,200	1,200
Water		800	800	800
Repairs and Maintenance		2,000	2,000	-
Internet Access		1,200	1,200	1,200
<b>Total Expenses (before proration)</b>	<b>A</b>	<b>\$ 6,400</b>	<b>\$ 11,400</b>	<b>\$ 32,000</b>
<b>Prorate Home Office Expenses:</b>				
Size of work space (sqft)	<b>B</b>	400	400	400
Total size of home (sqft)	<b>C</b>	3,000	3,000	3,000
Percentage of time used for work	<b>D</b>	23.8%	23.8%	23.8%
<b>Total Expenses (prorated)</b>	<b>(A x B / C x D)</b>	<b>\$ 203</b>	<b>\$ 362</b>	<b>\$ 1,016</b>
<b>Add Expenses Not Prorated:</b>				
Office Supplies		200	200	200
Basic Cell Phone Plan (business use)		600	600	600
<b>Total Claim for Expenses</b>		<b>\$ 1,003</b>	<b>\$ 1,162</b>	<b>\$ 1,816</b>

Note: Only costs that were not reimbursed can be claimed. Costs claimed are for the weeks working from home only.

Source: Our Family Office Inc.