Claiming In-Home Office Expenses

COVID-19 has brought much change to how Canadians conduct their business affairs and working from home may become permanent for many people.

Employees who have moved to working from home, or who are self employed and maintain a home-based office, are eligible for tax deductions to cover some of the costs.

CRA accepts three categories of individuals who may be able to deduct home office expenses:

(1) Salaried Employees
(2) Commissioned Salespeople and
(3) Self employed individuals working as a sole proprietorship or a corporate entity.

For those who are considered salaried employees, a portion of rent, hydro, heat, repairs, maintenance and office supplies qualify.

A commissioned salesperson is entitled to the same expenses, but they also can include a portion of their property taxes and homeowner's insurance.

Those who are self employed can also add a portion of their mortgage interest and Capital Cost Allowance (which is the depreciation on the home).

The key factor to satisfy the CRA is that the workspace is being used to earn income.

What are the eligibility requirements?

The two main conditions and requirements CRA is looking for are:

1. you do at least 50% of your work in the workspace being claimed, **OR**
2. you use the workspace for regular or continuous meetings with customers and clients.

If a Declaration of Conditions & Employments (form T2200) is signed by your employer, and you satisfy one of the two conditions listed above – you qualify.

The deduction is based on the square footage the workspace represents of the total square footage of the apartment or house. Thus, if the space equals 10% of the total square footage, you are entitled to use 10% of the expenses that are listed in your classification.

What else is important to be aware of?

CRA is normally good with the deduction of these expenses if they are reasonable and fully documented.

To reduce issues in a CRA audit be aware of the following common mistakes:

- Items such as desks, chairs, and filing cabinets should not be deducted as full expenses, as they are in fact Capital Expenses
- Upgrades to computers and printers are not 100% deductible in the year of purchase, they must be depreciated over a few years until they are replaced
- Full mortgage payments can not be deducted, rather only the interest paid on the mortgage for the year
- Only repairs and upgrades to the workspace can be deducted, not other areas of the home such as the cost of a kitchen renovation or a bedroom retrofit
- Not keeping excellent records and not breaking down expenses into the various categories as required
- Trying to deduct expenses which their employer has already reimbursed them for – also called double dipping or fraud!
- Claiming more expenses than the business earned, however, CRA does allow individuals to carry forward unused expenses, if the following year shows income from the same employer or business activity.