

# Tax Impacts of the Pandemic on Employers and Employees

February 16, 2022

## Everyone's Talking About It

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The COVID-19 pandemic has changed the way work is organized in a number of ways. For example, many employers are requiring employees to work from home, raising questions about deductible expenses for employees and the treatment of reimbursements, allowances and other benefits that may be provided for this purpose.

In this context, the governments introduced various relief measures in 2020 for, in particular, the home office expenses deduction and the benefits and allowances provided by the employer. Generally, these relief measures have been extended to December 31, 2022.

Here is a summary of the applicable rules and relief announced to date.

### EMPLOYMENT EXPENSES

For salaried employees,<sup>1</sup> deducting expenses is the exception. Only those expenditures specifically provided for in the Act are permitted, within the limits set out therein.

#### Employment contract

Generally speaking, employees can deduct employment expenses on their income tax return if their employment contract requires them to pay the expenses. This employment contract does not have to be in writing, but the employer and employee must agree to and understand the terms and conditions.

Accordingly, if there is an agreement allowing or obliging an employee to work from home, the employee will be able to deduct some expenses, in accordance with the conditions and within the limits set out below.<sup>2</sup>

### Employer's declaration

Employees can only deduct expenses if they obtain a duly completed and signed form T2200 – *Declaration of Conditions of Employment* (federal) and form TP-64.3 – *General Employment Conditions* (Québec) from their employer for the year in question.

By signing the form, the employer certifies that the employee was required to use home office space and pay expenses in this regard, specifying any amounts reimbursed for such expenses.<sup>3</sup>

Employees are responsible for compiling and reporting their employment expenses and for maintaining records to support their claim;<sup>4</sup> employers have no responsibility in this respect.

As an administrative practice, the CRA and Revenu Québec do not require employees to attach form T2200/TP-64.3 to their income tax return. However, employees must keep these forms, as well

<sup>1</sup> Special rules apply to expenses that may be deducted by commission employees whose employment relates to the sale or negotiation of contracts for the employer. This document describes the expenses that are deductible by salaried employees; it does not analyze the rules applicable to self-employed workers (entrepreneurs). For additional details in this regard, see [Section 6 of the Tax Planning Guide](#).

<sup>2</sup> Employees who voluntarily choose telework, with the employer's agreement and on terms and conditions approved by the employer, will be considered to use

their home for the purposes of employment and to pay the related expenses under the terms of this agreement (CRA, Technical Interpretation 2011-0394321E5 and Revenu Québec, Interpretation letter 19-048516-001).

<sup>3</sup> Form T2200/TP-64.3 also allows the employer to certify other expenses that employees are required to incur for the purposes of their employment (e.g. vehicle expenses).

<sup>4</sup> The record must include supporting documents for the expenses (invoices, monthly statements,

etc.). Employees must complete form T777 – *Statement of employment expenses* (federal) and form TP-59 – *Employment expenses of salaried employees and employees who earn commissions* (Québec) to claim the deduction of these expenses, when filing their income tax return.

as all records supporting the expenses claimed, in order to be able to submit them upon request for audit purposes.<sup>5</sup>

#### PANDEMIC RELIEF

Relief is available with respect to forms T2200/TP-64.3 that are required for employees who want to deduct their home office expenses due to COVID-19.

### HOME OFFICE

#### Temporary relief

For 2020 to 2022,<sup>6</sup> employees have two options to deduct home office expenses:<sup>7</sup>

- The [temporary flat rate method](#), under which employees who worked from home due to COVID-19<sup>8</sup> can deduct \$2 for each day they worked from home (**max. \$500** for 2021 and 2022<sup>9</sup>);
- The detailed method for employees who prefer to deduct their actual eligible expenses.

In all cases, employees must satisfy the eligibility requirements to deduct home office expenses and, depending on the situation, must complete the following forms:

- Forms [T777S](#) (federal) and [TP-59.S](#) (Quebec), the simplified forms for employees who only claim home office expenses due to COVID-19 using the flat rate or traditional method;
- General forms T777 (federal) and TP- 59 (Quebec) for employees who deduct other employment expenses, in addition to their home office expenses or who are working from home for reasons other than COVID-19.

#### Flat rate simplified method

Generally, the flat rate simplified method will be advantageous for employees with moderate expenses. These employees do not need to obtain forms T2200 and TP-64.3 from their employer or track their expenses in detail to claim this deduction.

#### CLARIFICATIONS

Employees can claim the \$2 per day flat rate for each day they worked from home on a full or part time basis, excluding vacation days and leave. The calculation only includes business days worked.

Individuals who use the flat rate method to deduct home office expenses cannot claim other employment expenses (such as automobile use expenses). They must use the traditional detailed method to deduct these expenses.

#### Detailed method

Employees who opt for the detailed method must calculate eligible expenses and ensure that they separate the use of premises for work and personal purposes.

For federal tax purposes, these employees must obtain one of the following forms, duly completed and signed by their employer:<sup>10</sup>

- Simplified form [T2200S](#) for employees who deduct only home office expenses as result of COVID-19;
- Regular form T2200, for all other employees, including those who also deduct employment expenses in addition to home office expenses.

In Quebec, form [TP-64.3](#) includes a section allowing the employer to confirm that the employee was required to telework due to COVID-19. The online service [Access to order prefilled TP-64.3 forms online service](#) is available to

facilitate the production of a large number of forms that employers could have to send to teleworkers.<sup>11</sup>

The CRA and Revenu Québec accept electronic signatures on forms T2200, T2200S and TP-64.3.

#### Conditions

One of the following conditions must be met for employees to deduct home office expenses:

- The workspace is where the employee mainly (more than 50% of the time) does work;
- The employee uses the workspace only to earn employment income and uses it on a regular and continuous basis to meet clients, or other people in the course of employment duties.

Whether employees perform their work mainly in their home is a question of fact, taking into account all the circumstances of each situation. The common meaning of “mainly” is “more than 50%”. Accordingly, this condition will generally be satisfied if an employee works more than 50% of normal working hours from home on an annual basis.

#### PANDEMIC RELIEF

For each of the years 2020 to 2022, the CRA and Revenu Québec considered this condition satisfied if the employee worked from home more than 50% of the time for a period of **at least 4 consecutive weeks** due to COVID-19.

#### Deductible expenses

In computing income for a taxation year, employees may deduct an amount for expenses incurred personally for the use of a home office and to purchase supplies consumed directly in the performance of their duties,<sup>12</sup> if their contract of employment requires them to pay such

<sup>5</sup> Generally, taxpayers are required to keep their records and supporting documents (paper or electronic) for at least six years after the end of the taxation year to which they relate.

<sup>6</sup> The flat rate method to deduct home office expenses was extended for 2021 and 2022 at the federal level and in Quebec.

<sup>7</sup> There is an online calculator on the CRA's [Home office expenses for employees](#) portal and on the [Ministère des Finances du Québec site](#). These tools can be used to determine the most advantageous method for the employee. This

relief does not apply to self-employed individuals and employees whose work from home is not a result of COVID-19.

<sup>8</sup> Employees who were not required to work from home are also eligible if their employer had offered this option.

<sup>9</sup> The annual ceiling of \$400 (200 days) that applied for 2020 has been increased to \$500 (250 days) for 2021 and 2022, at the federal level and in Quebec.

<sup>10</sup> Employees must calculate their deduction using the traditional method and keep supporting

documents to substantiate their claim, whether they have obtained the simplified or regular version of form T2200 from their employer.

<sup>11</sup> See Revenu Québec's [FAQ for Employers](#) for details on employers' obligations and the applicable terms for producing these forms.

<sup>12</sup> Expenses paid for the salary of an assistant or replacement are also deductible if the employment contract explicitly or implicitly provides for it.

expenses and, where applicable, to obtain such supplies.<sup>13</sup>

Eligible expenses include office expenses and supplies. Employees may not receive any reimbursement from their employer in this regard and the expenses cannot exceed employment income for the year.<sup>14</sup>

### Office expenses

Deductible office expenses include the portion of costs associated with maintaining an office space, such as electricity, heating and maintenance costs. The utility portion (electricity, heating and water) of condo fees is also deductible.<sup>15</sup>

If employees own their home, the following expenses are **not deductible** as home office expenses:<sup>16</sup>

- Property taxes;
- Home insurance premiums;
- Mortgage interest.

Additionally, these employees cannot claim capital cost allowance on the building or deduct an amount for the rental value of the office space.

Employees who rent the home in which the office space is located can deduct the rental costs for the office space.

The percentage of deductible home office expenses must be determined on a reasonable basis, such as the area of the office divided by the total finished area of the home (including hallways, bathrooms, kitchen, etc.).

Generally speaking, lighting fixtures (light bulbs, fluorescent tubes, etc.), cleaning products and minor repairs (paint and routine maintenance repairs) that apply only to the home office space are fully deductible, unless the space is also used

for other purposes, in which case the expenses are deductible in proportion to the use made of the space.

### Office supplies

According to the tax authorities, a supply is considered to be “consumed” and therefore deductible as a home office expense if its use destroys its substance or renders it unusable. The supply must therefore have a finite use such as paper, pencils or ink cartridges. However, the cost of purchasing or renting office furniture or computer equipment (printer, mouse, keyboard, etc.) is not deductible, given the reusable nature of these goods.

### Telephone and internet costs<sup>17</sup>

Reasonable home internet access costs are considered an eligible expense for the home office deduction.<sup>18</sup> Connection fees and modem or router rental costs are excluded.

Generally, the tax authorities do not consider monthly costs for basic telephone service (landline or cell phone) to be “supplies consumed” in the course of employment.<sup>19</sup>

In general, these fees will be deductible to the extent that they are charged on a per-use basis. This will include long-distance calls and cell phone minutes that are directly attributable to employment.

The CRA also indicated that it would accept the deduction of expenses for a cell phone used exclusively for employment purposes.<sup>20</sup>

### GST and QST

Deductible employment expenses include any GST/HST and QST paid on these expenses.

If the employer is a registrant for GST/HST and QST purposes, the employees may be entitled to a refund of the taxes paid on taxable expenses that are deductible in computing their employment income.<sup>21</sup>

Any reimbursement which employees received in this regard must be added to their income in the year in which it is received.

## REIMBURSED EXPENSES AND ALLOWANCES

An employer may compensate employees for expenses related to work, either by paying them an allowance or by reimbursing them for expenses incurred, upon presentation of supporting evidence.

In general, the payment of an allowance or reimbursement of personal expenses is considered a benefit. The employer may also provide benefits to employees, such as allowing them to use property for personal purposes at no cost. If an employer provides benefits to its employees, the employer must determine whether the benefit is taxable and, if so, calculate its value, in order to include it in the employee's income and make the relevant withholding.

### Allowance

An allowance is an amount paid by an employer to an employee to compensate expenses incurred in connection with the office or employment. There does not necessarily have to be a relation between the amount, the nature of the actual expenses incurred by the employee and the allowance received.

<sup>13</sup> A telework arrangement may implicitly require the employee to provide and pay for an office at home.

<sup>14</sup> Therefore, it is not possible to realize a loss by deducting home office expenses or deduct these expenses from income other than employment income. Expenses not deducted in a given year can be deducted the following year against income from the same employer.

<sup>15</sup> Regarding deductible condominium fees, see note 1 in the “Allowable Expenses” section on the CRA’s [Home office expenses for employees](#)

portal and Revenu Québec, [Interpretation letter 15-025912-001](#) (June 2, 2016).

<sup>16</sup> Commission employees may deduct a portion of insurance premiums and property taxes as a home office expense. Self-employed individuals may be entitled to a wider range of expenses.

<sup>17</sup> These expenses are deductible, within the limits described below, to the extent that the expenses are paid by the employee or paid by the employer and included in the employee's income as a taxable benefit. See the [CRA's site](#) and guide [IN-253 \(Quebec\)](#) regarding taxable benefits for cellular phone and Internet services.

<sup>18</sup> See the list of eligible expenses on the CRA's [Home office expenses for employees](#) portal and Revenu Québec's [FAQ for Individuals](#).

<sup>19</sup> See in particular Revenu Québec, Interpretation letter 19-046430-001 (September 23, 2019).

<sup>20</sup> CRA, Technical Interpretation Doc 2016-0634351E5 (August 22, 2016).

<sup>21</sup> For GST/HST purposes, the employer must not be a listed financial institution. The employee can claim this rebate on his or her income tax return using form GST370 – *GST/HST Rebate Application* and form VD-358 – *Employee QST Rebate*.

An allowance to compensate employees for expenses incurred in connection with their work<sup>22</sup> is considered a taxable benefit, whether or not the employee is otherwise entitled to deduct expenses in this regard.

### Expense reimbursement

The amount that the employer reimburses an employee for the purchase of supplies used in the course of employment is not taxable unless the reimbursed expenses have a personal component for the employee. For example, the reimbursement of items such as furniture and computer equipment is considered a taxable benefit to the employee, since the employee acquires property of a durable nature that can be used outside of the duties of employment.

#### RELIEF DUE TO THE PANDEMIC

In the exceptional context related to COVID-19, the reimbursement, upon presentation of supporting documents,<sup>23</sup> of up to \$500 to offset the cost of acquiring personal computer and office equipment required to enable employees to perform their duties at home is not a taxable benefit to the employee.<sup>24</sup>

#### Expenses covered by the relief (maximum \$500 per employee)

- Computer equipment (e.g. printer, monitor)
- Office equipment (e.g. chair, worktable)

### Transportation and parking

Expenses related to commuting between employees home and their regular place of employment and parking at that place of employment are generally considered personal expenses. Any reimbursement, allowance or other compensation provided

by the employer in this regard is therefore usually considered a taxable benefit.

#### PANDEMIC RELIEF<sup>25</sup>

In the exceptional context of COVID-19, allowances to cover the following costs are not considered a taxable benefit:<sup>26</sup>

- **Additional** commuting costs incurred to minimize the risk of exposure to COVID-19 for employees who are required to travel to their regular place of employment to perform their duties;
- Employees commuting costs to travel to their place of employment to pick up equipment enabling them to perform their employment duties at home.

When a regular place of employment is closed due to COVID-19 and the employee is required to work from home, the CRA and Revenu Québec consider that the value of the parking space benefit is nil.<sup>27</sup> This measure does not apply to an employee who is away from work during vacation or sick leave.

Employers are required to keep appropriate records to reflect the reasonableness of the amounts paid and employees are required to keep records of their use of motor vehicles in this context.

### AUTOMOBILE BENEFIT

Generally, the taxable benefit for the use of an employer-supplied automobile includes a standby charge and a benefit for operating costs.<sup>28</sup>

### Standby charge

Regular standby charges are 2% per month of the original cost of the vehicle to the employer or two-thirds of the lease payment.

The benefit may be reduced if employees use the automobile primarily (more than 50% of the time) for business purposes and kilometres for personal use are not more than 1,667 per month (total of 20,004 kilometres a year). Regular standby charges will then be adjusted based on personal-use kilometres.

### Operating cost benefit

Under the general method, the operating cost benefit is \$0.27<sup>29</sup> per kilometre for employees' personal use. If employees use the vehicle primarily for business purposes, before the end of the year, they can ask their employer to calculate this benefit using the optional method. In this case, the benefit is equal to 50% of the standby charge.

#### PANDEMIC RELIEF<sup>30</sup>

For 2020 and 2021, employees can use their 2019 usage to determine whether a vehicle is used primarily for business purposes.<sup>31</sup> Employees therefore continue to benefit from the reduced standby charge benefit and the optional method for the operating cost benefit, as applicable.

Employees who qualify for the optional method because of their 2019 automobile usage do not have to notify their employer that they wish to use the optional method to determine the operating cost benefit for 2020 and 2021. Their employer must determine the benefit using both methods and use the lower amount.

<sup>22</sup> For example, to cover home office expenses or transportation or parking costs.

<sup>23</sup> This relief also applies if the employer pays these goods directly but it does not apply to allowances that may be paid for such purposes.

<sup>24</sup> The \$500 amount is the total maximum amount that can be refunded to each employee for the period between March 15, 2020 and December 31, 2022). See the [COVID-19 – Employer-provided benefits and allowances](#) for the CRA position and Revenu Québec's [FAQ for employers](#).

<sup>25</sup> Relief in effect from [March 15, 2020 to December 31, 2022](#) for the federal and Quebec purposes ([FAQ for employers](#)).

<sup>26</sup> This relief covers amounts paid or reimbursed by the employer and reasonable allowances to cover these expenses. It also extends to the use of employer-provided vehicles for such travel. For employees who are required to travel to work to perform their duties, this relief applies if the employee was not already using an employer-provided vehicle to commute to work prior to the COVID-19 pandemic.

<sup>27</sup> On its [Internet site](#), the CRA states that this relief also applies to employees who are able to work

from home due to the pandemic. Revenu Québec has confirmed that it has adopted the same policies as those issued by the CRA ([FAQ for employers](#)).

<sup>28</sup> For more information on calculating employees' automobile benefit, see the [Tax Planning Guide](#).

<sup>29</sup> Rate for 2021 (\$0.28 in 2020, \$0.29 in 2022).

<sup>30</sup> See the December 21, 2020 [Background](#) published by Finance Canada and Revenu Québec's [FAQ for Businesses](#).

<sup>31</sup> Only employees who have a vehicle provided by the **same employer** as in 2019 are eligible for this option.



## T4 SLIPS

### Special codes for 2020

For the 2020 taxation year, employers were required to use the following new codes to report employment income and retroactive payments **made to an employee** during the given period in the “Other Information” area at the bottom of the T4 slip:

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

**Example:** If employment income for the period of April 25 to May 8, 2020 was paid on May 14, 2020, the employer was required to use code 58.

This requirement applies to all employers, whether or not they have claimed the Canada Emergency Wage Subsidy (CEWS) or another wage subsidy. This information is used by the CRA to validate Canada Emergency Response Benefit (CERB) payments made during these periods.

### NO REQUIREMENT FOR 2021

During a question and answer session with CPA Canada, the CRA confirmed that this additional reporting requirement applied only for the 2020 calendar year; such new amounts will not have to be declared for 2021.

Don't hesitate to contact your Raymond Chabot Grant Thornton consultant who can help you identify and apply the measures applicable to your situation.

For more information, visit us at [rcgt.com](https://rcgt.com).