Canada Revenue Agency: Working From Home Can Get You a Tax Break

Description

The COVID-19 pandemic has given many working professionals a taste of working from home. Are you new to working from home? Then please note that the Canada Revenue Agency (CRA) allows tax deductions on the expenses you incur for operating your workspace in the home.

According to the CRA data, 174,210 Canadians applied for $271.86 million in the work-space-in-the-home deduction for the 2018 tax year, which averages out to $1,500 per person.

There are many complexities in this deduction. There are many conditions on who is eligible, which expenses qualify, and how much can you deduct?

Can you claim deductions for the work-from-home expenses?

The basic idea behind the work-from-home tax break is to compensate you for the additional expense you paid from your pocket to get the job done. If your employer reimbursed you those expenses, then you can't claim that as a tax deduction. Now, when can you claim this deduction?

- When you have spent more than 50% of the time working from home, or
- When you have regularly been using the workspace in your home to meet clients, customers, or other people.

In the pandemic-driven lockdown, working from home has become the new normal. According to Statistics Canada, 3.3 million Canadians were working from home by mid- April. However, this number reduced to 2.9 million in June as the economy re-opened and 400,000 Canadians returned to office. However, companies like **Shopify** have shifted some employees to work from home for an indefinite period.

The pandemic has raised many questions around the above two eligibility criteria, for which the CRA is yet to clarify. However, one thing is certain. If you started working from home from March 15 and continued to do so till mid-September, you will complete six months working from home. This will make you eligible to claim the work-from-home tax break.

Which expenses are included in the work-from-home deductions?

The CRA allows you to claim expenses related to electricity, heating, maintenance, property taxes, home insurance, and rent (in case of rented properties). You can claim these expenses, except maintenance, up to the percentage of your home which you have converted into a workspace. You can also claim for any office supplies you purchased like papers and printer ink.

I will explain it with the help of an example. Jane is a web developer and lives in a four-room apartment (including the bathroom and kitchen) in Ontario. She has a taxable income of $58,000, of which she earns $48,000 from her regular job and $10,000 from teaching students over the weekend.

Her company has asked her to work remotely for an indefinite period. She converts her spare room into a workspace with PC, broadband, printer, and headsets. Her employer does not reimburse her any expenses.

When calculating her taxable income, Jane can deduct 25% (1 room divided by four rooms) of her electricity bill, property tax, and other expenses listed above from the $48,000 she earns from her company. However, she can't claim broadband and telephone expenses. Nor can she claim mortgage expense, and capital cost (purchase or monitor or printer). Moreover, her work-from-home deductions cannot exceed $48,000.

Make the best use of your tax savings

To claim the work-space-in-the-home deduction, Jane's employer and Jane have to submit two separate forms to the CRA. It is recommended that Jane save the receipts of these expenses. It might seem a lot of work, but it can help you reduce your tax bill significantly. Even $1,000 in tax savings can go a long way.

You can invest these tax savings in high-growth stocks through your Tax-Free Savings Accounts (TFSA). A good growth stock is **Lightspeed POS** (TSX:LSPD).

Lightspeed provides retailers and restaurants with cloud-based point-of-sale (POS) solutions. It earns through subscription fees, transaction-based commission, and hardware device sales. Last year, its annual revenue rose by 55%.

Lightspeed stock fell 67% in the March sell-off as the pandemic-driven lockdown significantly hurtmany retailers and restaurants. However, the stock has recovered as its e-commerce volumes surged400% in April compared to February. If you had invested $1,000 in Lightspeed in early April, it wouldbe worth $2,000 by now.

The company is expanding its offering to include curbside pickup and online bookings. It has the potential to increase its revenue and its stock price.

CATEGORY

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