CRA Tax Break: There's a New $400 Work From Home Credit You Can Deduct!

Description

Did you know that about 3.4 million Canadians started working from home when the pandemic started? Almost three-quarters of them were still working from home in August. Even now, most people who started working from home still haven't returned to the office yet. That's a significant portion of the workforce.

Many people have enjoyed this new situation and might opt for this arrangement even when the pandemic is under control. As it also impacts the overhead costs for businesses and takes the commute time out of the equation. Many companies might encourage their employees to start working from home permanently.

A simplified work-from-home tax break

There has always been a tax break for people who work from home. It was introduced for remote workers and people who ran their businesses from their homes. It allows them to claim home-office expenses on their taxes. But the exact calculation of this tax can be a bit difficult, especially for remote workers who might need signed forms from their employers verifying these expenses.

Since so many people would be claiming the work-from-home tax break for 2020, the usual way of calculating home-office expenses would have been difficult for tax-payers and too labor-intensive for the CRA. So to simplify it, the CRA has introduced a temporary flat-rate method.

If you've worked from home for 50% (or more of the time) for at least four consecutive weeks, you can claim a $2 per day deduction.

There are a few other requirements as well, but for the most part, it's significantly simpler compared to the usual home-office tax deduction. Employees don't need to keep any records, and employers don't need to sign and send Form T2200 to their workers. You can claim a maximum of $400 through this deduction (following the flat-rate method).

An evergreen tax break

When you are focusing on this new tax-break, don't forget the evergreen RRSP deduction. The more you save and invest in your future (within the contribution limit), the more sizeable your deduction would be. If you are looking for a long-term asset to place in your Tax-Free Savings Account (TFSA), **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is a smart option to consider.

The Canadian banking sector has proved its mettle time and time again. It recovered in a reasonable time frame after the great recession, and most banks also recovered quite swiftly after the March crash. The Royal Bank's valuation is just 4% shy of its pre-pandemic peak, and it's offering a juicy 4% yield. But a more potent reason to invest in this bank is its dominant position in the sector and long-term growth prospects.

It's the largest bank in the country and one of the largest in North America. It's highly stable and is now focused on its online services because that's the future of banking. Also, its 10-year compound annual growth rate (CAGR) is 11.5%, which is realistically maintainable.

Foolish takeaway

Many people might not be happy with the relatively low flat rate deduction amount and might try to claim their expenses using the detailed method. If you are taking that route, make sure you understand the rules perfectly and have all the documents and forms to prove your claim. If you are unsure, the flat rate deduction might be the logical choice.

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