



## Don't Forget to Claim the \$2/Day Home Office Expense Deduction

### Description

Did you work from home last year? You can claim a home office expense tax deduction when you file your 2020 income tax returns. Brace up as this can get a little complicated. The Canada Revenue Agency (CRA) allows you to deduct expenses such as electricity, heating, stationery, maintenance, and broadband from your taxable income.

Now, this is where the confusion starts. When and how can you claim home office expenses? Let's start from the beginning.

### When can you claim the home office expense deduction?

The CRA allows you to claim home office expenses if:

- You opted to, or your employer required you to work from home.
- You worked from home for more than 50% of your working hours for at least four consecutive weeks.
- Your employer did not reimburse you for all or some of the expenses.

If you tick all the above boxes, you can deduct home office expenses.

### How to claim the home office expense deduction

As many Canadians worked from home full time between April and June 2020, the CRA introduced a temporary rate method. Under this method, you can claim \$2/day for the days you worked from home up to \$400 (200 days). You can save yourself from the hassle of calculating the expense, collecting supporting documents, and Form T2200S from the employer.

If your home office expense is significantly above \$2/day, you can do the old detailed method. This method is tedious as you need to calculate the portion of your home you converted into an office and accordingly deduct the expenses. Then you need to present all the bills and get Form T2200S signed

by your employer. I explained this process in my previous [article](#).

Your expenses can't exceed the income you earned from that employer. Also, you can't claim home insurance, property taxes, mortgage, or any capital cost like replacing furniture or laptop.

The home office expense deduction reduces your taxable income, thereby saving you federal and provincial tax. If you are at the border of two-income brackets, this deduction can save you a significant amount. For instance, James's taxable income after all other tax breaks is \$48,800. If he claims the \$400 home office expense deduction and falls under the minimum federal tax bracket, he can reduce his federal tax bill by \$75.

## More ways to save taxes

Like home office expenses, the CRA gives you many other options to reduce your tax bill, and one such option is the Registered Retirement Savings Plan (RRSP). You can contribute 18% of your earnings, or \$27,230, whichever is lower, to RRSP and deduct that amount from your 2020 taxable income.

Remember, you can't withdraw the RRSP amount before you turn 71 without [a penalty](#). So invest only the amount you plan to save for retirement. If you are considering investing in RRSP, you might want to look at **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)), Canada's largest integrated oil giant.

Oil has ruled an entire century as it fuelled cars, planes, and many other engines. Suncor owns everything that has to do with oil, be it extracting, refining, or distributing. Its production unit benefits when the oil price rises. Its distribution unit benefits when the oil price falls. Hence, in the 2014 oil crisis, when shale gas exploration halved oil prices from over \$100/barrel to around \$50/barrel, Suncor's stock recovered in three years without cutting dividends.

However, its robust business model did not work in the pandemic crisis. Generally, when the oil price falls demand rises. But the pandemic-induced travel restrictions pulled down oil price and demand. Suncor's stock fell over 60% in the March 2020 market crash. It also slashed dividend by 55%. You can look at the dividend cut in two ways; either the company is preserving cash for the worst, or a dividend cut gives Suncor room for a higher dividend growth when the economy recovers.

If you invest in Suncor now, it will give you reduced but regular dividends now and dividend growth in the long term. As the stock is trading below \$25, you can get 20 stocks for less than \$500.

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