CRA Tax Relief: Don’t Miss This One-Time $400 Tax Deduction

Description

The Canada Revenue Agency (CRA) has done a splendid job in adjusting its benefits to the situation the pandemic created. In March last year, the federal government announced a nationwide lockdown, closing all non-essential businesses. Many people brought their work home, set up a workspace, and performed their duties remotely. Now remote working entails a cost, and the CRA already had a home-office-expense tax deduction in place.

But this method was lengthy and involved a great deal of calculation and paperwork; there were many gaps as it did not cover the broadband expense. As 40% of Canadians started working remotely, the CRA realized there was a need for a simple tax deduction. Hence, it created a temporary flat rate method for a home-office-expense tax deduction.

The CRA’s one-time $400 home-office-expense tax deduction

As the name suggests, the flat rate method applies a flat $2/day tax deduction for home office expenses if you qualify. There is no need to submit any receipts or get any form from your employer. All you need to do is fill Form T777S when you do your taxes and you can deduct up to $400 ($2*200 days) from your taxable income.

To qualify for this temporary flat-rate method:

- You should have worked from home because of the pandemic.
- You should have worked from home for over 50% of your working hours for a minimum of four straight weeks.
- The expenses should be directly related to work and not reimbursed by your employer.

When calculating the working days, do not include leaves, vacation days, sick leaves, and absence.

If your expense is far more than $400 and you have all the supporting bills, take the long route and go for a detailed method.

How can home-office-expense tax deduction reduce your tax bill?

Although a $400 amount may look small, it can bring you significant tax savings. I will take two scenarios to explain the power of tax deduction.

Jack is a software engineer in Ontario and has a taxable income of $48,900 in 2020. Before any tax adjustments, his total tax bill comes to $9,995 ($7,355 federal tax + $2,640 provincial tax). After the $400 home-office-expense tax deduction, Jack's total tax bill reduced by $116 to $9,879.

As you climb up the tax bracket, this $400 deduction has a bigger impact on your tax bill.

Susan is a data scientist in Ontario with a taxable income of $97,400 in 2020. Before any tax adjustments, his total tax bill comes to $24,553 ($17,316 federal tax + $7,237 provincial tax). After the $400 home-office-expense tax deduction, Susan's total tax bill reduced by $145 to $24,408.

One interesting fact is more than one person living in the same apartment can claim this deduction. So if Susan and Jack are roommates, they both can claim the home-office-expense tax deduction as long as the expenses are directly related to work.

Make the work from home count

This temporary $400 tax deduction can bring in significant savings. As the world explored the power and efficiency of remote working, it will set the tone for a new age of work culture. **Enghouse Systems** (TSX:ENGH) will benefit from this culture given its exposure to visual communications and video services support.

Enghouse acquires small companies in the contact center, transportation, telecom, and geographic information systems verticals. The pandemic paved the way for contact center revenue growth, sending the stock up as much as 52% in the first half of 2020. Since then, the stock has corrected 27% to its pre-pandemic level of $56.

The company is in the right verticals that will benefit from the technology revolution in 5G, electric and autonomous vehicles. It will continue to acquire smaller companies and increase its revenue and cash flows. The current correction is a good time to buy a stock that has significant growth potential in the coming years. The stock has doubled in the last three years and has the potential to replicate this growth in the coming three years.

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