

# Tax Time Doesn't Have to be Taxing

SPEAKER	TRANSCRIPTION
DORETTA THOMPSON:	<p data-bbox="540 485 1513 527"><b>[00:00:10.82]</b></p> <p data-bbox="540 548 1497 699">Welcome to Mastering Money the Educators Edition, where we talk about the latest in financial literacy education. I'm Doretta Thompson, financial literacy leader for Chartered Professional Accountants of Canada. We provide no cost programs and free online resources that help Canadians own their finances and learn the language of money.</p> <p data-bbox="540 720 1513 762"><b>[00:00:32.59]</b></p> <p data-bbox="540 783 1432 898">This episode is part of our podcast season focusing on the road ahead financially and mentally due to the impacts of COVID-19. Our guests are helping us understand what the future may look like, and giving us some insight into the steps we can take moving forward.</p> <p data-bbox="540 919 1513 961"><b>[00:00:50.20]</b></p> <p data-bbox="540 982 1481 1066">You can find our podcast on Podbean, Apple Podcasts, Google Podcasts, Spotify and wherever else you find your podcasts. If you have any questions, you can get in touch with us at <a href="mailto:financialliteracy@cpacanada.ca">financialliteracy@cpacanada.ca</a>.</p> <p data-bbox="540 1087 1513 1129"><b>[00:01:10.80]</b></p> <p data-bbox="540 1150 1481 1266">Today's January 27th 2021. I'm joined by my colleague Fabio Bonanno, Principal of Taxation, here at Chartered Professional Accountants of Canada, filing seasons right around the corner. So Fabio's going to help us get ready by giving us a bit of a tax update. Thanks for being here today, Fabio.</p>
FABIO BONANNO:	<p data-bbox="540 1302 1513 1344"><b>[00:01:29.76]</b></p> <p data-bbox="540 1365 841 1396">Hi, Doretta. My pleasure.</p>
DORETTA THOMPSON:	<p data-bbox="540 1430 1513 1472"><b>[00:01:31.96]</b></p> <p data-bbox="540 1493 1497 1619">So here it is the end of a very, very difficult year lots of changes for people to adapt to et cetera, can you just give us a bit of a walk through on some of the tax implications of those changes. Things like transitioning from CERB to EI support, the things people may be really curious about right now.</p>

FABIO BONANNO:

**[00:01:53.05]**

Yeah, for sure. So as you know back in March when the whole pandemic started the government introduced a bunch of measures to help Canadians get through this difficult time. Of which one of them was the CERB. And people have been receiving it and, unfortunately, we've noticed that Canadians continue to need support.

**[00:02:12.21]**

So what the government did is they introduced a new EI program, this EI program is similar to many ways as the old EI program, but what they've done is they've temporarily simplified it. And they've also expanded it by relaxing a bunch of qualification requirements.

**[00:02:29.47]**

So what people will notice now relative to CERB is that this new EI program is being administered by Service Canada, and it's applied for using My Service Canada, as opposed to My Account through the CRA.

**[00:02:45.66]**

And basically, you'll notice that they've made a bunch of changes that make it more helpful to Canadians in that they've expanded the benefit rate, whereas before someone could have received less than \$500 a week, depending on their insurable earnings. You'll notice now that there's a minimum amount that one will receive on the basis that they qualify for \$500 per week.

**[00:03:06.16]**

And in addition to that, depending on the traditional program, depending on where a Canadian lived in the country, depending on that unemployment rate, the amount of time he could be on EI varied amongst the whole country. So depending on where you lived and the unemployment rate.

FABIO BONANNO:

**[00:03:22.18]**

So now they've actually put a minimum of 26 weeks that someone could get EI. So before you could have received less than 26 weeks, now the minimum is 26 weeks. So again, that's applied through My Service Canada, which is very similar to the registration process as My Account.

**[00:03:42.52]**

So in addition to EI, what we've noticed is that in the Canadian economy, a lot more people are self-employed and are contractors, you have a lot more people working for these platforms like Uber and Lyft and whatnot as an example. And if you don't qualify for the EI program and you don't meet those qualification criteria, the government recognizes this and what they've done is they've also introduced the Canada Recovery Benefit.

**[00:04:10.35]**

So where you don't qualify for EI it'll provide you again up to \$500 per week for up to 26 weeks to workers who were self-employed, or were not eligible for EI and still require income support.

FABIO BONANNO:

**[00:04:24.66]**

Now in addition to that, you've lost employment or you're self-employed and you've had a reduction of earnings, the government also recognizes that unfortunately, during this time people may take time off to either take care of themselves and to self isolate, or to take care of a loved one.

**[00:04:40.30]**

So they've introduced two additional temporary measures called the Canada Recovery Sickness Benefit, which will provide up to \$500 per week for up to two weeks for those who are sick and who must self isolate given the current circumstances we're in.

**[00:04:56.30]**

In addition to that, if someone has to take care of a loved one, they can also receive \$500 per week but up to 26 weeks. And it's per household this amount and, yeah, it's basically for people who are taking care of loved ones. Now a big difference between when we originally started and we're getting the CERB where people would receive money tax free.

**[00:05:18.34]**

So without withholding taxes they're not tax free they're taxable, but without withholding taxes now, these benefits that the government is issuing will be subject to 10% withholding tax. And again, although the withholding tax is not a final tax, I think this is all some changes it will better help Canadians manage their cash flow. So that when they do file their income tax return the risk of having a surprise payment and liability is reduced.

**[00:05:45.57]**

And another important consideration is that although the EI program is applied for via my Service Canada account, the three additional programs that were introduced can still be applied for via the CRA and My Account. So again, My Account still serves as an important tool for Canadians that should absolutely at the earliest convenience apply for.

DORETTA THOMPSON:

**[00:06:08.37]**

Wow. That's a lot of information. Let's stop a second try to unpack that a little bit. Just I want to make sure that I really understand it, and that our listeners understand it. So if you were, for example, claiming CERB benefits when those came to an end, if you met the requirements you would become eligible for EI support under a new simplified EI benefit. Is that correct?

FABIO BONANNO:

**[00:06:32.42]**

That's correct.

DORETTA THOMPSON:

**[00:06:33.24]**

If you didn't meet those requirements. For example, if you are self-employed or you hadn't met the minimum number of days, I think you said was 26 weeks, you would then be eligible for a different program which is the CRB or the Canada Recovery Benefit?

**SPEAKER****TRANSCRIPTION**

FABIO BONANNO:

**[00:06:50.52]**

Yeah, so just to clarify. The 26 weeks is the minimum amount of time that someone could be on the program. So basically, what I mean by that is as an example, if under the old program I could have maybe received only 15 weeks let's say of EI under this program. And ensures that Canadians are on a program for a set minimum amount of time of 26 weeks.

**[00:07:14.98]**

So if you're on the new EI program and you're looking for work, you can be on the program for up to 26 weeks. Not less than that. Whereas under the old program, you could have been on the program for less than 26 weeks depending on various factors.

DORETTA THOMPSON:

**[00:07:29.36]**

And then in addition to that, there are new benefits a sickness benefit if you're personally ill, and that's the Canadian Recovery Sickness Benefit?

FABIO BONANNO:

**[00:07:39.24]**

That's correct.

DORETTA THOMPSON:

**[00:07:40.16]**

Right. Or the Canadian Recovery Caregiving Benefit. And that's for caring for relatives?

FABIO BONANNO:

**[00:07:46.41]**

Yes, that's correct.

DORETTA THOMPSON:

**[00:07:47.70]**

So Fabio, I've heard that a lot of people are very concerned about the fact that when they got CERB benefits, nothing was withheld on that \$2,000 a month and now people are concerned about whether they'll have the money to pay their taxes. So what are the tax implications of the new program. That's what you mean by the withholding tax, is it?

FABIO BONANNO:

**[00:08:06.62]**

Yes. With the withholding tax what will happen is, for example, with comparing it to CERB, Canadians would have received \$2,000 a month and there would be no temporary withholding taxes applied on that payment.

**[00:08:19.87]**

So although the benefit amount is 2000, what will go into their bank account was \$2,000. Whereas now, the amount is \$500 per week, for example, for the CRB, which is the new program, the amount is \$500 per week and a 10% withholding tax will be applied on that payment, so they won't get the full \$500.

**[00:08:40.80]**

Now, in my opinion it's a welcome change, only because it helps Canadians manage their cash flows a lot better so that when they do finally do their tax returns, there's an amount of tax that has been contributed to that income so that the risk of a surprise tax liability is minimized.

DORETTA THOMPSON:

**[00:08:57.04]**

All right. Let's just talk a little bit again about the difference between My Account and My Service Account. Because that may be something that some people are a bit concerned about.

FABIO BONANNO:

**[00:09:08.29]**

Yeah, for sure. So as a tax professional I'm more familiar with My Account so CRA my account, but there is My Service Account and that's with Service Canada. And that's administered with Service Canada.

**[00:09:22.74]**

Fortunately, people will notice that when they go into their My Account with the CRA, there's a link that redirects them into their My Service Account and vice versa. So there's also a link under My Service Canada that links to their My Account as well.

**[00:09:39.36]**

That makes this easier, but I caution people, it's important to individually apply for both of these My Accounts, if you will. The reason being is sometimes the CRA activates this link, and the reason being is for very security and IT reasons. So if you need a benefit it is just more convenient to have a separate login and password for the both of them, rather than relying on this link.

**[00:10:04.42]**

So, My Account as an example, is an effective and quite frankly, it's a very convenient tool to help Canadians obtain data about their tax filings, it also allows them to obtain their tax slips or things like their T4s, T5s. So it's a database and that'll help Canadians with tax preparation, and also to communicate with the here as well.

FABIO BONANNO:

**[00:10:29.92]**

So within this portal there's ways of uploading documents. For example, if the CRA would ever question you on something and rather than communicate via email, what happens is now you can upload certain responses to the CRA through My Account.

**[00:10:45.51]**

So it makes the whole tax preparation process which is really hard a lot easier, and it makes you more organized it really is an effective tool. Now, in addition to tax preparation, a lot of our social benefits in Canada are administered through our tax system.

**[00:11:01.02]**

So through My Account, the CRA My Account, a lot of benefits like the three that were just recently introduced outside of EI, are applied for using My Account. So it's your gateway to a lot of these social benefits that are available to Canadians.

**[00:11:19.00]**

Alternatively, you would have to either call the CRA and mail them stuff. So it really gets messy and you lose out on a lot of time as well. Especially if someone's unemployed during this time and cash flow is an issue, the time for you to get those benefits is significantly accelerated if you signed up for My Account.

**[00:11:37.93]**

When it comes to My Service Account, and on the other hand, I'm not an expert on that side of things, but EI is applied for via that portal. Now again, there's the link between the two, but sometimes they're down for various reasons like I think right now it's down quite frankly, but that may get changed.

**[00:11:57.04]**

So it is convenient to have that link, but I always encourage people like family and friends to sign up for both of them. That way there's no delay, there's no risk of that the CRA taking that link is activating it temporarily.

DORETTA THOMPSON:

**[00:12:10.48]**

And if this is for people who don't have a My Account at CRA, how do they get one?

**SPEAKER****TRANSCRIPTION**

FABIO BONANNO:

**[00:12:17.91]**

Yeah, so they simply type in CRA My Account on Google. They'll notice that the first link that shows up on their Google search is My Account, and what they do is they click on register once they're on that page, and what will happen is they'll enter information from their prior tax return.

**[00:12:37.73]**

So it's important that they have their social insurance number in place, and their prior tax return with them. And they'll ask a bunch of questions and they'll get temporary limited view access to their My Account.

**[00:12:48.61]**

In the meantime though, what's going to happen is this is going to send an access code by email. So they should within I think it's 10 business days, get something in the mail from the CRA with an access code.

**[00:13:00.88]**

They then log in again, and they'll enter their access code and that'll enable the full fledged version of My Account, which isn't just information, but it's interactive and it allows you to get your T slips and a whole bunch of other really interesting features.

DORETTA THOMPSON:

**[00:13:18.16]**

So for those who have not yet got My Account, account with CRA, remember have your social insurance number ready, and also your prior year's tax return. And then the world of CRA opens up to you.

FABIO BONANNO:

**[00:13:31.32]**

Exactly. And to elaborate on that too though, the My Service Account with Service Canada, is a very similar process in terms of getting yourself set up to that as well. So they're very similar processes. And again, I encourage that people sign up for both of them.

DORETTA THOMPSON:

**[00:13:46.47]**

That's great advice. Thanks. What about people who don't use My Account, how do they go about filing their taxes?

FABIO BONANNO:

**[00:13:54.34]**

If people don't have My Account I encourage them to get it and it's crucial. It really is such an important and convenient feature, that it makes filing your taxes let's be honest it is a little bit of a pain. And it reduces that pain significantly.

**[00:14:08.32]**

Because what you're going to have to do is you're going to have to ensure that you have all your T slips, you're going to have to confirm that you have all the data to complete your tax return.

**[00:14:16.84]**

That process, you'll still have to do when you have My Account, but it really simplifies that. So I would definitely encourage. And if you don't have access to a computer or an internet connection or anything like that, maybe call up a family member or friend and ask for assistance.

**[00:14:33.31]**

It really is helpful it's such a great tool. You'll notice that on now on a lot of free tax preparation software, you would have to have My Account to have certain features enabled. So for example, nowadays you can get as an example, your T4 employment income slip, and you can automatically import it if you have My Account into your tax preparation software.

**[00:14:56.95]**

So you don't have to do that data entry. And it reduces any sort of risk of data entry errors which unfortunately, we all do sometimes. So for people who don't have My Account, I definitely would suggest that they do everything possible to get it.

**[00:15:12.35]**

And if they still can't get My Account, then they can still do their tax filings using the available software that's built there. A lot of it is free, which is a great thing. But the data gathering process becomes a headache and it becomes a little burdensome for a lot of people.

**[00:15:28.97]**

So you really have to be really organized and know what bank accounts you have, whether or not there was interest charge on those bank accounts for what you would have a T5, or whether or not your employer's and whether or not they should use a T4, whereas with my account it gives you a little bit more peace of mind that all of that data is with you and available to you.

DORETTA THOMPSON:

**[00:15:47.65]**

One thing it's important to think about, why is it important for people to file their tax even if they believe they have no taxable income?

FABIO BONANNO:

**[00:15:55.88]**

Yeah, so that's a great question. And it's two-fold the reasoning. One, is the first main reason is avoidance of penalties and interest. So in Canada if you don't file your personal income tax return and there's an amount owing on that tax return, a penalty will be assessed by the CRA.

**[00:16:14.78]**

And that penalty could get quite hefty. So you want to ensure that you file on time to avoid any penalties and anything else when you have an amount outstanding for a certain amount of time, there's going to be interest charged on that amount owing.

**[00:16:29.07]**

So you want to reduce that risk. Now, a lot of times when I was in practice dealing with clients, a lot of them would say, well I never filed my tax return because I never had an amount owing. And that worries me a bit.

**[00:16:42.41]**

And the reason being is that, if, for example, you file your income tax return you thought you never had an amount owing. So and you filed in late, what could potentially happen, is that the CRA may disagree with your tax return.

**[00:16:57.16]**

And in fact you made a mistake and there's now an amount owing. Well, you'll have a surprise tax penalty to pay as well. So it's important that you file on time. Now a lot of people don't file on time also because they're afraid. They're afraid that there may be a tax liability that they'll have to pay. My advice to those people is just to file it anyways, and call the CRA arrange for some payment agreement where you can be put on a schedule to make your payments.

FABIO BONANNO:

**[00:17:25.69]**

Because the last thing you want to do, is accumulate on an annual basis interest and penalties. It's much better to file, have the liability known and call and be proactive with the CRA, and to arrange for some payment schedule. And always keep them in the loop.

**[00:17:41.98]**

The CRA's really reasonable, especially people are making the best efforts. Now the other reason why you want to file your tax return on time, is that a lot of these benefits that we've talked about and that we've talked about in our last podcast, for example, the GST credit, or the Canada Child Benefit.

**[00:18:00.04]**

They're a function of the income you report on your income tax return. And because they're renewed, I believe it's in July of every year, what happens is if you file late it could delay-- if the CRA knows that you never file, it puts them in an opposition to determine, "OK, how do we continue these benefits?" And what will happen is they'll either delay paying the benefits or you just may not ever get them. So that's why you want to ensure that you file on time so that those benefits continue going forward.

**SPEAKER****TRANSCRIPTION**

DORETTA THOMPSON:

**[00:18:32.43]**

That's great that's really important information for people to remember. I believe that last year there was an extension on the period that you had to file by because of COVID, that I think it moved to September?

FABIO BONANNO:

**[00:18:45.13]**

Yeah, administratively the CRA, did allow people to file in September, but again, they encouraged people and it was mainly for these benefit payouts, because it impacts the whole system on their end to avoid the headache of having your benefit payments delayed. They still encourage people to file as soon as they could.

**[00:19:07.36]**

So yeah, they did extend that given the circumstances, but had I been advising people, I would have just suggested filing whenever they could as soon as possible. Clearly by the new extended deadline, but if possible before.

**[00:19:22.85]**

And the earlier the better. And we did hear of some stories of people getting their benefits delayed. And I understand on the CRA and as well they did their absolute best and quite frankly they did a great job of ensuring payments got out, but it could complicate matters is what I'm getting at. So you want to file.

DORETTA THOMPSON:

**[00:19:41.36]**

Let's turn now to our filing for this year, and helping people get ready to file their 2020 personal income tax returns. So one of the top things that people should be thinking about this year?

FABIO BONANNO:

**[00:19:53.32]**

There's an overwhelming amount of changes this year. So I'll do my best to simplify things here and to summarize them. We do have two blog posts on our CPA Canada tax blog, that will include the link to the notes of this podcast.

**[00:20:09.88]**

Usually, our tax blog is catered to people in the tax world, but these two in particular I would definitely suggest people who are listening to take a look at them because they do provide a summary of what I'm going to talk about right now. So definitely take a look at them and they'll definitely be helpful.

**[00:20:26.30]**

But in terms of what to expect this personal tax filing season, as a starting point, there will be a new T4, the T4 is basically where your employer reports your employment income, income taxes that were withheld from your pay.

FABIO BONANNO:

**[00:20:42.49]**

What you'll notice is there's going to be four new boxes on this T4. And this is all going to be taken care of by your employer. And the purpose of these four boxes is to report income you earn in certain parts of the year, don't fret, nothing changes in terms of how you prepare your personal income tax return, these are just information boxes for the CRA to validate certain payments that were made to all Canadians.

**[00:21:07.36]**

So for example, there's the various subsidies that your employer may have received, there may have been the CERB that you've received every employer's is going to report these amounts irrespective of these benefits pertain to your personal scenario, or their corporate scenario, or business scenario.

**[00:21:23.36]**

So if you see these boxes don't fret, it doesn't change anything on your end, again, it's just used by the CRA to validate these claims that were made throughout the year. That's the first major change.

**[00:21:36.22]**

Then we received, many Canadians received money from various support programs. So just keep in mind that most of these programs are taxable, and they will need to be reported on your income tax return.

**[00:21:48.78]**

So starting with the CERB as we've mentioned already. It is taxable, and again, unfortunately, there was no taxes withheld on this. So it may be a good idea to estimate the taxes that are going on the CERB. So in our last podcast I suggested people use some tax software just updated for your-- although the tax rates are different, not 2019 relative to 2020, the amounts deviate significantly.

**[00:22:16.22]**

So maybe just pull up your last year's filing tax software, and do an estimate of what your final tax liability is going to be, just so you can prepare for any final tax liability. So that's a CERB. And again, unfortunately, no taxes were withheld, but you're going to have to pay tax on it and report it on your personal income tax return.

**[00:22:36.44]**

The CRA is actually right now in the process and a lot of Canadians have actually received them already issuing T4a. So your CERB will be reflected on a T4a, which is effectively a slip like your T4, which shows amount you've received and also taxes withheld.

FABIO BONANNO:

**[00:22:52.89]**

So for CERB you'll see an amount, but you won't see taxes withheld. So there'll be the new EI, so for people who are on CERB and who then went into the new EI program, or for Canadians who unfortunately, lost their job after September 27th, who've received the EI, they would also get what is known as a T4e, and that reports any amount you receive from the EI program as well as the related withholding taxes that will also have to be reported on your income tax return.

**[00:23:21.63]**

Then, there's the three programs we just talked about. And that also, if you received that in 2020, we'll have to be reported on your personal income tax return as they're taxable. There will be a T4a issued and you'll notice as opposed to the CERB, there will be a 10% withholding tax apply to those amounts. So that will be also reflected on your T4a.

**[00:23:43.25]**

Now it's also important to highlight that Canadians also have received various one time benefits. For example, the enhanced, or the security, or the one time bumped up Canada child benefit, or the GST credit. Those amounts aren't taxable, so you won't receive any slip from the CRA with respect to those amounts those don't have to go on your income tax return and aren't taxable.

**[00:24:07.91]**

Now again, these slips that I'm talking about they can all easily be retrieved, and they will show up on your My Account by April they will be there, so that you'll easily be able to retrieve these without having to worry about anything.

**[00:24:23.00]**

They'll all be there especially these government, issued ones they'll definitely be there. So again, hence the importance of CRA, My Account as a tool for facilitating your tax preparation.

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DORETTA THOMPSON:

**[00:24:33.98]**

So really helpful information for people who need to understand their basic slips that they're going to be getting a new T4 slip, which will have four new boxes on it. This isn't a matter of concern to you because your employer. Does it? And then there are T4a slips connected to the benefit programs.

**[00:24:51.53]**

And then just reminding people that the CERB, for example, did not have tax withheld at source, but the other new programs do. So these are really important things for people to remember. And also that one time benefits, are not taxable.

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FABIO BONANNO:

**[00:25:07.18]**

Exactly.

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DORETTA THOMPSON:

**[00:25:07.73]**

Right. So now let's think about how a lot of us have been working from home. And I'm sure that many of us, I know I have been and everybody I work with, we've all been working from home. What's the status of our home office, what's deductible?

FABIO BONANNO:

**[00:25:25.28]**

That's a great question and a question we've been hearing so much since the beginning of this pandemic started, on whether or not we'll be able to claim home office expenses.

**[00:25:37.11]**

So on the basis that certain eligibility requirements are met, generally speaking yes, Canadians who are working from home due to COVID will be able to claim home office expenses, but it's important to back up and just go over some of the rules.

**[00:25:52.55]**

On December 15th, there was a big announcement by the CRA with respect to home office expenses. And they introduced two new methodologies to claim home office expenses for those that were working from home as a result of COVID.

**[00:26:08.06]**

Now what I'm going to be talking about today, is for people that were traditionally working in their office in the past, and because of the pandemic are now working from home. If you were claiming home office expenses prior to the pandemic, nothing changes for you. Continue to what you were doing in the past, nothing changes.

**[00:26:27.32]**

These rules are really for people who because of the pandemic starting from March 16th, to December 31st, or were either required or chose to work from home as a result of the pandemic.

**[00:26:40.24]**

So why these changes were made is because the law that this CRA dealing with hasn't changed, and that law states that, Canadians can claim home office expenses on the basis that they're required to have a home office, and for which they are required to pay for their own home office expenses out of their own pocket.

**[00:27:01.12]**

In addition to that, once that condition is met, Canadians are required to either work from home principally, so more than 50% of their time from home, or they use their home office exclusively to earn employment income, and use that home office to regularly and continuously meet with customers.

FABIO BONANNO:

**[00:27:20.61]**

I know this is a lot, but what's relevant here is your home office was used principally to do your job. That's what's most relevant in our current environment. Now in addition to that, the law states that, every employee will have to receive a T2200 from their employer attesting to the fact that these conditions were met.

**[00:27:43.42]**

So that's the law and what it says. What the CRA has done, is they were a little bit more flexible. So these rules were in place for a while and definitely weren't made with the intention that all these people will be working from home.

**[00:27:55.51]**

So what the CRA has done, is provide a little bit more clarity for people. Because if you think about it in most everyday Canadians, their employment contracts don't necessarily state that they're required to work from home. Or what does principally perform their employment duties at home mean.

**[00:28:13.38]**

So, yeah, they say 50% of the time is that on a calendar basis, there's all kinds of interpretive issues. So the CRA has clarified this and home office expenses the deduction traditionally speaking, is a very complicated calculation that even sometimes practitioners get confused with.

**[00:28:30.18]**

So as a result of that, they had to come up with new methodologies to reduce the risk that Canadians get these calculations wrong. OK? And in addition to that, the forms both the T2,200, and the form in your tax return to report your home office expenses, those are complicated forms so they've introduced two new forms that are simplified versions of this forms.

**[00:28:52.60]**

So what the CRA has done is effectively eliminated a lot of the uncertainty with the interpretive issues, and they've also made the forms that are required to be filled out by both you and your employer a lot simpler, and they've provided a ton of great resources and calculators online to assist with these calculations.

**[00:29:12.49]**

So let me get to it all. So the first methodology that they've introduced, is known as the simple temporary flat rate deduction. So that deduction is exactly what it sounds like. So it's a \$2 for each day deduction that you work from home in 2020 due to the COVID pandemic, and it's up to a maximum of \$400.

FABIO BONANNO:

**[00:29:35.47]**

So you're eligible for the temporary flat rate method if he meets certain conditions. So you worked from home due to COVID-19 during 2020, and the period that they're talking about is from March 16th to December 31st 2020. So if you had to work from home one of those conditions are met.

**[00:29:52.73]**

Now what they mean by you were working from home due to COVID is your employer required you as an example, at CPA Canada our office is closed, so we in effect were required to work from home. However, if your office was open but you chose to work from home for health and safety reasons, you still qualify for this. So you're still eligible.

**[00:30:13.93]**

You worked from home more than 50% of the time for at least four consecutive weeks. So again, you worked more than 50% of the time for at least four consecutive weeks during this time frame from March 16th to December 31st.

**[00:30:29.56]**

You have no other employment expenses you're deducting, and you were not fully reimbursed by your employer for all your home office expenses. So with that last point what they mean there is, a lot of people have been getting their office chairs reimbursed and whatnot, that's fine you would still meet that condition.

**[00:30:48.40]**

What they're talking about is, for example, your employer said you know, we're going to cover all your expenses utilities and everything, just give us a report and we'll pay for it all. In that case there where 100% of your work from home expenses were paid for, then you wouldn't qualify, but if some items were-- some like office supplies were reimbursed, an office chair furniture whatever, to get your home office set up, then you still meet this condition.

**[00:31:16.54]**

Part of this calculation is very simple. So it's \$2 for everyday you worked from home to a maximum of \$400. The question now becomes, what does these at home mean? So those are either full time days or part time days, and they don't include.

**[00:31:29.62]**

So you'll have to back out from this calculation sick days, vacation days. And the amazing thing about this method, what makes it so simple is that your employer doesn't have to give you a T2,200 or a T2,200s. And you're not required to keep any sort of supporting documentation.

FABIO BONANNO:

**[00:31:46.90]**

The point of this flat amount is really just to capture all your expenses an easy way to get a deduction reflecting the fact that you paid out of your own pocket certain expenses to earn your employment income.

**[00:31:59.95]**

Now when you make the claim super simple and it's again, all on this here a website, once you know you're eligible, you have to complete the new simplified version of the T777, and you'll notice at the top of that form, there's option one which says the flat rate simplified method and you select that.

**[00:32:18.80]**

And all you have to do is enter the amount of these that you worked from home taking into account vacation, sick days. And presumably your tax software is going to multiply that by 2 and that'll determine your home office deduction. So that's the simplified method.

**[00:32:34.93]**

And then there's the detailed method. Now the detailed method unfortunately, is still a little bit complicated, but the CRA has done a great job at offering Canadians various resources, whether it's a calculator, it'll walk through everything that I'm going to talk about right now very simply, and will add a link to this in the show notes. Just because it really is an impressive tool and it makes this a lot easier.

**[00:32:59.24]**

So the detailed method, is you're actually deducting the actual amounts you paid that required for you to do your employment duties at home. So what I mean by that, is you would have to keep track of all your eligible expenses and report that on your return as opposed to this flat rate amount.

**[00:33:17.44]**

Now in addition to that, you will need a T2,200s from your employer, which attest to the fact that you meet the conditions to claim home office expenses. And in order to be eligible for this, like the flat rate method you were working from home due to the pandemic. So again, you're either required or you chose to be safe. You were required to pay for your home office expenses, and they were used directly in your work.

**[00:33:45.82]**

Again, there's this whole 50% rule of you use the office, you're required to work from home for four consecutive weeks, and you spent 50% or more of the time working from home during those four weeks. And again, just to repeat myself. You've also have a completed T2,200s.

FABIO BONANNO:

**[00:34:04.36]**

So in terms of determining the actual amount of the deduction, you have to know what are eligible expenses. Again, the CRA website clarifies that. They actually have a search function where you type in something like furniture, or chair, and I'll tell you whether or not it's deductible or not.

**[00:34:19.84]**

Then once you grab all your eligible expenses, you're going to have to determine an allocation factor to determine the employment portion of eligible expenses. So you're going to have to prorate this amount for what is related to your employment duties.

**[00:34:36.73]**

And again, that again is done for you on the CRA website by answering their questions. So as examples of some eligible expenses are things like, electricity, heat, water, utilities, various utilities are the utilities portion of your condominium fees which I'll get into later, and rent.

**[00:34:58.33]**

Some examples of ineligible expenses are certain capital expenses. For example, if I had to replace the furnace of my home that won't count. Or if you-- there's a lot of confusion on this so I wanted to highlight this. If you had to buy furniture for your home office like a desk or a chair, that won't qualify as a deduction.

**[00:35:18.20]**

So when we're talking about when I said you know I complicated the term inappropriate allocation factor. What you have to do here and the CRA really hold your hand with this, is determine a percentage that is reasonable for which your eligible expenses are going to be applied to this percentage to come up with your deductible amount.

**[00:35:40.36]**

So typically what happens is if you have a dedicated space, that's used 100% for employment you would take the square footage of that space divided by your total housing square footage, and multiply that by your eligible expenses to come up with your reasonable home office expense deduction.

FABIO BONANNO:

**[00:35:57.67]**

Given that during this time it's not all that clean a lot of people are working on kitchen tables as an example, where there's also personal usage of that space as well. So what the CRA has done in this calculator, is giving you this option to enter the amount of hours that you've worked on that kitchen table if you will.

**[00:36:16.19]**

So further prorate that for the amount of work time you spent on that kitchen table, divided by your total hours in the day that are available to you. So once that's all known, you're entered this data into the T777s hours, which is a simplified version of the T777, the CRA calculator offers a printout, where it's calculated for you once you answer their questions, and you literally take that printout and you put it into your tax preparation software. So it should look the exact same you just entered the data that's provided to you by the CRA calculator.

DORETTA THOMPSON:

**[00:36:51.52]**

OK. So let me summarize here. CRA is allowing deduction for home office expenses, and there are two ways you can do it. If you've normally worked from home and deducted your home office expenses, nothing changes for you, you just do it the same way.

**[00:37:08.71]**

But if you're working from home 50% or more of the time and there's lots of information on CRA to help you figure out if you qualify for this, you can use a simple method that really doesn't require any particular forms from your employer, or for you to maintain documentation and it's basically \$2 a day, up to a maximum of \$400.

**[00:37:29.95]**

The other way is you can do a simplified version of what people who normally work from home do, and then you do look at your actual expenses. And there are ways of providing and calculating what you're allowed to deduct, and the CRA provides tools for that.

**[00:37:46.88]**

So which is better for most people? Should you go through the simplified version or should you go for the more detailed method?

FABIO BONANNO:

**[00:37:53.38]**

Some tips when dealing with this, is which method should I use? Should I use the flat rate method, which is the maximum with only \$400, or should I use the detailed rate method. So when you look at the \$400 just as an absolute number it doesn't sound like a lot, but if you're a homeowner the \$400 if you run the numbers, you'll notice that it actually is a reasonable amount and it is really reflective of the cost you incurred to work from home.

**[00:38:22.63]**

However, if you rented, you would definitely want to use-- especially if you live in a large metropolitan area in Canada like in Toronto, Montreal, Vancouver rents are relatively high. I think it's a safe bet that your greatest deduction will come from the detailed method.

**[00:38:38.41]**

The other thing to consider is there's various calculation issues like condominium maintenance fees. How do you determine what part of my maintenance fees are related to employment? Because part of that condominium fee, there is a common area portion and part of it is a utilities portion.

**[00:38:56.80]**

There's two ways of doing it. There's the hard way, which is if you know people like reading financial statements you can look at your condo corporation's financial statements, I wouldn't advise of that, because it's difficult. Or you can email your property manager and get an approximate percentage of which amounts relates to utilities, as opposed to common area expenses.

FABIO BONANNO:

**[00:39:20.75]**

So those are some of the questions that we've come across in terms of work from home expenses. So again, which one should I use? I really think it comes down to whether or not you rent or your own, your dwelling, and if you rent you may want to consider the detailed method. If you're a homeowner you'll notice that the maximum \$400 amount \$2 a day amount is reflective of the actual costs.

**[00:39:45.30]**

Even if it's not reflective, and maybe you could have gone in an extra \$100 deduction using the detailed method, you'll notice that the simplified method is simple. You don't have to keep supporting documentation. The risk of an error is very low because it really is a simple calculation.

**[00:40:02.28]**

Whereas the detail net is a lot more complicated. You have to maintain supporting documentation you have to get a T2200. So personally I value simplicity. If I was a homeowner, I would pick the simplified method quite frankly, but it really is on a case by case basis, but keep that in mind that although on an absolute level the \$2 a day \$400 maximum doesn't seem like a lot. It is really reflective of the true costs notably if you're a homeowner. However, if you're a renter though you may want to pursue the detailed method even though it is more complex.

**SPEAKER****TRANSCRIPTION**

DORETTA THOMPSON:

**[00:40:35.27]**

So if you're a homeowner the \$400 is probably about right, but if you're a renter in an expensive city that's when you really might want to look at those additional expenses. That how it works?

FABIO BONANNO:

**[00:40:47.07]**

Yeah. So in very simple terms, if you're a renter you should use the detailed method it produces a substantially higher deduction. So for sure. Yes. And if you're a homeowner, run the calculation for yourself to prove it, but you'll see that within \$100 or \$200 or whatever it is you're more or less get to \$400.

DORETTA THOMPSON:

**[00:41:08.79]**

So Fabio, as you're looking at this, what do you really hope people are going to learn from the pandemic about taxes?

FABIO BONANNO:

**[00:41:18.32]**

In terms of taxes, I hope people will learn the importance of staying organized and the importance of filing your tax return. Because in a moment of crisis the government has support programs to help people get through this scenario.

**[00:41:34.81]**

So the next time there's a crisis and hopefully it's not a health crisis, they'll be better prepared to receive these benefits. So, for example, they're caught up with their tax filings, and that they're also signed up for My Account as well.

**[00:41:48.34]**

So I really hope people understand the importance of filing your taxes on time, as well as signing up for these digital tools like My Account because they really make life easier. And these programs really have helped Canadians get through this difficult time.

**[00:42:05.22]**

Unfortunately, in the beginning, some people were caught a bit off guard. They weren't signed up for My Account and things did take a little bit more time, but I think this process has forced people to actually make use of these tools. And also unfortunately, for some people learn the importance of filing on time because they may have not received their benefits on time.

**[00:42:24.88]**

And so hopefully this really emphasized what we call in tax the need to be compliant. So always having your tax returns filed on a timely basis.

DORETTA THOMPSON:

**[00:42:33.54]**

Fabio, thanks so much for this. I think it'll be really helpful for people as they prepare to do their 2020 taxes this year. So for our listeners Fabio, mentioned several blogs on our website that will help you with these resources.

**[00:42:49.98]**

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**[00:43:06.96]**

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**[00:43:18.34]**

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**[00:43:37.92] [MUSIC PLAYING]**