

Legislative Costing Note

This is an independent cost estimate of a budgetary measure contained in the federal government's Fall Economic Statement 2020 (FES 2020). A list of the PBO's cost estimates of components of the FES 2020 can be viewed on [its website](#).

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Short Title: Simplifying the Home Office Expense Deduction

Description: Due to the COVID-19 pandemic resulting in many Canadians working from home, the government introduced a simplified flat rate home office expense deduction for the 2020 tax year. This will allow Canadians to claim deductions up to \$400, based on the length of time working from home, without the need to track detailed expenses.

Data Sources:	Variable	Source
	Telework Capacity by Industry	Statistics Canada
	Average deduction and total counts of individuals that filed the T2200 between 2016-2018	Canada Revenue Agency (CRA)
	Labour Force Projections	PBO Economic Model
	Labour Force Statistics	Labour Force Survey (LFS)
	Housing Statistics	2016 Census
	Work from Home due to COVID	Canadian Perspective Survey Series and the Labour Force Survey (LFS)

Estimation and Projection Method: Based on the 2018 data, the number of individuals who declared work-space-in-the-home expenses made up an estimated 10% of individuals that worked from home; the average deduction per claim was approximately \$1,550. However, given that many Canadians unexpectedly had to work from home, and many did not have a designated office space prior to 2020, it is anticipated that the average qualifying deduction amount could be significantly less. Additionally, given that only 10% of individuals who worked from home filed a T2200 in 2018, we assumed that the individuals who previously did not file because they did not qualify would now qualify under the new temporary simplified work from home deductions.

To estimate the subset of working Canadians that would choose to file for either the detailed or flat rate method, we examined the number of Canadians working from home based on the employment levels from the monthly LFS. Using labour force characteristics, we examined the break down of employment by industry and province.

The Canadian's Perspective Survey Series (CPSS) provided the change in working locations for Canadians during the week of March 22, 2020 due to COVID-19. This survey suggested that approximately 39% of workers worked from home. Beginning in April 2020, the LFS introduced new questions relating to the percentage of Canadians who worked from home.

We then applied the estimated telework capacity to the employment levels across industry and province. By applying the resulting proportions to the estimated monthly employment,

we estimated the total number of individuals that worked from home between March and December 2020.

In addition to public data, we received data from the CRA for the 2016 to 2018 period that showed the total number of individuals who filed for a work from home deduction and the average amount claimed, by province. From this, we estimated the percentage of individuals who filed a T2200 and the percentage of individuals who did not file despite working from home. Using this relationship, we estimated the take-up rate of a T2200 in 2018 and adjusted it to the 2020 employment level.

However, we should not simply assume that individuals who worked from home prior and did not file a T2200 would automatically file the simplified deduction. Instead, we modeled the take-up rate based on home ownership statistics by province. With the detailed method, individuals can claim rent, cost of electricity, heating and maintenance. Canadians cannot deduct mortgage interest, principal mortgage payments, or capital expenses.¹ Therefore, we anticipated that individuals who rent would be more likely to file under the detailed method. More specifically, we estimated that individuals with rent over \$1,000 in a household of less than or equal to 2 people would have the highest probability of choosing to file under the detailed method. Based on this and using the 2016 Census, we established a take-up rate for filing under the detailed method.

We calculated the total monthly deduction amounts using the \$2 deduction limit per day of working from home. We then multiplied it by the maximum monthly payment based on the number of working days in a month and the take up rates established above. We also adjusted to exclude the average sick and vacation days taken per month based on the LFS. A tax rate of 22% was applied to arrive at the net amount cost of the flat rate method.

Lastly, the total cost also takes into consideration the change in individual behavior in a counterfactual world where the simplified method does not exist. Using housing ownership statistics, we estimated the behavioral change for the small portion of the population that would choose to file the detailed method, if the option for the flat rate method had not existed.

Sources of Uncertainty: Due to the unprecedented nature of the pandemic that resulted in many more workers working from home, historical data may not reflect the current scenario. It is assumed that not all taxpayers will complete the more complex home office deduction filing, and may simply resort to the simplified tax deduction, but the extent is unknown. In addition, tax fraud, claims by ineligible individuals and carry forward of unused deductions are not considered in this estimate. In order to prepare the net cost, we estimate a counterfactual universe where the simplified deduction does not exist. Estimates were made to predict the average claimant amount and the distribution across province, if the simplified form exists.

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¹ More information on rules and exceptions can be found on the Government of Canada's page on [Home Office Expenses for Employees](#).

Cost of proposed measure

\$ millions	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Total cost	260	-	-	-	-	-

Notes

- Estimates are presented on an accruals basis as would appear in the budget and public accounts.
- Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.
- "-" = PBO does not expect a financial cost.

