Bluenose Accounting
Chartered Professional Accountants

Name ______________________________

CORPORATE HOME OFFICE EXPENSES

Many individuals who own or operate a corporation use a portion of their home for business purposes. To qualify, the home office must be your primary (more than 50% of your time) place of work or, if not, one set aside exclusively for business and where you regularly meet clients. Meeting clients includes email and phone as well as in person meetings.

Since the corporation does not own the property (we would always avoid this so as to allow for the tax-free sale of a principal residence), the corporation can't pay for home expenses. However, we essentially create a rental arrangement whereby the individual rents their home to the corporation.

The amount of rent is based on the actual expenses and the portion (percentage) of the home used for business. As an example, let's say that the annual expenses work out to around $14,500 and the home use was 20% - $2,900. We would simply charge $250 per month to the corporation. This $3,000 rent can come out tax-free to the homeowner or, alternatively, be credited to the shareholder loan account. The income is then reported the individual's T1 personal return and then expenses claimed against it. The net effect on the personal return is a positive rental income of $100. We try to make this as close to break even as possible as the goal here is simply to credit, on a tax-minimized basis, the business use of a personal residence.

Address of property ______________________________

Area of home office (square footage) ______________________________

Area of entire home (square footage) ______________________________

Revenue

- Gross Rent (determined by Bluenose) ______________________________

Expenses

- Insurance ______________________________
- Mortgage interest (excludes principal) ______________________________
- Rent (if home not owned) ______________________________
- Maintenance and repairs (note 1) ______________________________
- Property taxes ______________________________
- Utilities – Electricity (note 1) ______________________________
- Utilities – Heat (note 1) ______________________________
- Other expenses (i.e. water) ______________________________

Note 1 - See Other Side re: notes on eligible expenses.

Maintenance and Repairs

There is always a question as to whether an expense is a maintenance (deductible) or a capital improvement (not claimable in this case). Routine upkeep, such as repairing a leaky window or repainting damaged walls are examples of repairs. The tax act focuses on betterment and whether the benefit is long-lasting. Where an expense restores to the original condition, it is assumed to be a repair. Where there is a betterment, it is capital. The amount of the expenditure sometimes comes into play though there are no set limits. For example, replacing asphalt shingles with new asphalt shingles is a repair but the amount might be over ten thousand. What is certain is that replacing asphalt with metal is an upgrade and considered capital.

Why is such a determination important? Capital items are not deductible in full in the year incurred but rather depreciated over time. This would be similar to say a computer or a vehicle. However, we never advise individuals who use a portion of their principal residence to claim depreciation. Doing so would deny the tax-free sale of the home on the portion claimed for business use. The minimal tax savings within the corporation would be more than offset by the lost tax savings on the home sale.

If you have any difficulties in determining capital versus maintenance, we would be glad to provide you with some advice. Of course, we would always question unusually high maintenance expenses when preparing your personal return.

Utilities

Generally, utilities would include heat (if separated from electricity), electricity, and water. We do not include expenses such as phone or internet here as they are dealt with separately within the corporate year-end bookkeeping and accounting. CRA considers a home phone as personal and hence we would not consider telephone as a rental expense. Where there are specific business features, such as a separate business line, the expenses associated with the features are claimed directly as a business expense and not as a rental expense. Where the internet is used for business, an allocation is also claimed directly in the corporation and not as a rental expense. A bundle might include internet and a business line. An allocation is made for these and is claimed directly as a business expense.