



Using Your Home for Daycare

Is this booklet for you?

If you run a daycare in your home, you may be able to deduct expenses from the business income you report on your income tax return.

This booklet will help you determine the expenses you can claim. It will also explain your responsibilities as an employer, and the importance of keeping good records.

If you are thinking of setting up a daycare business, you should also know about municipal, provincial or territorial, and federal laws or regulations that could affect you. You can get some of the information you should know from municipal offices, provincial or territorial ministries, as well as from applicable Government of Canada departments and agencies. Also, local chambers of commerce or boards of trade will often offer help to new businesses.

If you are blind or partially sighted, you can get our publications in braille, large print, etext, or MP3 by going to www.cra.gc.ca/alternate. You can also get our publications and your personalized correspondence in these formats by calling **1-800-959-5525**.

The term **income tax return** used in this booklet has the same meaning as **income tax and benefit return**.

La version française de cette publication est intitulée *Vous avez une garderie à la maison?*

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Are you a self-employed individual?

The amount of control a parent has over your work decides whether or not you are a self-employed individual and whether or not you can deduct daycare expenses from your daycare income.

Generally, you are a **self-employed** individual if you control:

- the number of hours you work;
- the places and materials you use; and
- the way you carry out your daycare duties.

You can claim daycare expenses on your income tax return if you report self-employment income earned from running a daycare.

Generally, you are an **employee** if the parent:

- specifies the work to be done;
- specifies the working hours; and
- supervises your work.

As an employee, you **cannot** deduct daycare expenses.

If you are not sure about your situation, see Guide RC4110, *Employee or Self-Employed?*

If you care for children **part-time or from time to time and it's impossible for you to tell how long and steady the work is going to be**, you **cannot** deduct business expenses. Report these earnings as "Other employment income" on line 104 of your income tax return.

Reporting your income

If you determine that you are self-employed, report your daycare income as business income on your income tax return. Include your gross daycare income on line 162 and your net income or loss on line 135.

To calculate your net income or loss, we encourage you to use Form T2125, *Statement of Business or Professional Activities*. However, we accept other types of financial statements.

If you use Form T2125, complete the “Identification” section. In the box for “Industry code,” enter the code for daycare which is 624410.

Enter your gross income from daycare on line A in “Part 1 – Business income” of Form T2125.

Your **gross income** from your daycare business includes all the income you earned from giving daycare services during the year. This income would include payments from parents, as well as subsidies (such as provincial or territorial grants to care for children).

If you receive a grant to buy daycare property, **do not** include in your income the part of the grant that you used to buy depreciable property. Instead, subtract the applicable part of the grant that you used to buy the property from the capital cost of the property.

For more information, see “Capital cost allowance” on page 13.

To calculate your **net income**, you can generally deduct, from your gross income, expenses that you incur to earn income from your daycare services.

Include all your income when you calculate it for tax purposes. If you don’t report all your income, you may have to pay a **penalty** of 10% of the amount you didn’t report after your first omission.

A different penalty may apply if you knowingly, or under circumstances amounting to gross negligence, participate in making a false statement or omission in your tax return. In such a case, the penalty is 50% of the tax relating to the omission or false statement (minimum \$100).

If you have self-employment income, you and your spouse or common-law partner must file your income tax return by **June 15** to avoid possible late-filing penalties. However, to avoid interest charges, you have to pay any balance owing by **April 30**.

If either of the above dates fall on a Saturday, a Sunday, or a statutory holiday, you have until the next business day to file your return or make your payment.

Goods and services tax/harmonized sales tax (GST/HST)

If you provide care and supervision in your home to children 14 years of age or under for periods of usually less than 24 hours per day, the daycare service you provide is **exempt** from GST/HST. If this is the case, you cannot add this tax to the amount charged for these services. For more information, see Guide RC4022, *General Information for GST/HST Registrants*.

Fiscal period

You must report your business income on a **fiscal-period** basis. A fiscal period is the time covered from the day your business starts its business year, to the day it ends its business year. The fiscal period is usually 12 months. It cannot be longer than 12 months, but it can be shorter. This may happen when you start a new business or when you stop an existing business.

Generally, self-employed individuals use December 31 as their fiscal year-end. However, you may be able to use a different method of reporting your business income. This method will allow you to keep a fiscal period that does not

end on December 31. For more information on having a fiscal year-end other than December 31, see Guide RC4015, *Reconciliation of Business Income for Tax Purposes*. This guide will help you calculate the amount of business income to report on this year's income tax return. This guide also includes Form T1139, *Reconciliation of Business Income for Tax Purposes*.

Generally, if you filed Form T1139 in the previous year, you have to file the form again this year.

Accrual method

As a self-employed individual, you must report business income using the accrual method of accounting.

According to this method, you:

- report your income in the fiscal period you earn it, regardless of when you receive the income; and
- deduct expenses in the fiscal period you incur them, whether you paid them in that period or in another. **Incur** means you either paid or will have to pay the expenses.

For more information on this method, see Guide T4002, *Business and Professional Income*.

Claiming your expenses

You can deduct any **reasonable** expenses you incur to earn your daycare income on your income tax return.

In this section, we describe many of the expenses you can deduct if you incur them to run your daycare. We also tell you on which line of Form T2125, *Statement of Business or Professional Activities*, to claim each kind of expense.

For more information on other expenses that may apply, see Chapter 3 in Guide T4002, *Business and Professional Income*.

Note

Do not send your receipts or other records with your income tax return. Instead, keep them in case we ask to see them later. For more information, see "Keeping records" on page 17.

Advertising

You can claim the cost of advertising your daycare in Canada. You can also claim the cost of business cards.

Report this expense on line 8521 of Form T2125.

Business tax, fees, licences, dues, memberships, and subscriptions

You can deduct any annual licence fees and business taxes you incur to run your business. You can also deduct annual dues or fees to keep your membership in a trade or commercial association.

Report these expenses on line 8760 of Form T2125.

Note

You **cannot** deduct club membership dues (including initiation fees) if the main purpose of the club is dining, recreation, or sporting activities.

Maintenance and repairs

You can deduct the cost of labour and material for minor repairs done to your home if:

- you can show that the damage is from running a daycare business; and
- your insurance company did not pay for the repairs or reimburse you for the expense.

Keep all original receipts, sales invoices, and contracts for maintenance and repairs in case we ask to see them later.

Report this expense on line 8960 of Form T2125.

Note

You **cannot** deduct the cost of your own labour or the cost of replacing furniture or floor coverings.

Management and administration fees

You can deduct management and administration fees, including bank charges that you incur to operate your daycare business. Bank charges include those for processing payments.

Report this expense on line 8871 of Form T2125.

Motor vehicle expenses

If you use your vehicle **occasionally** for business purposes, you may want to claim motor vehicle expenses from such use on a per trip basis. For example, taking children, in your daycare business, to a park or on an outing might involve expenses for fuel and parking.

However, if you **regularly** use your vehicle for business and personal trips, you can claim part of the total operating expenses for this vehicle as a business expense. You must keep accurate records that show the portion of the total kilometres that were driven to earn business income. For more information on motor vehicle records, see “Keeping records” on page 17.

Motor vehicle operating expenses include:

- licence and registration fees;
- insurance;
- gas and oil;
- maintenance and repairs;
- interest you pay on a loan used to buy a vehicle;

- leasing costs.

Do not include any capital cost allowance (CCA) in the calculation of your operating expenses. Instead, claim any CCA on line 9936 of Form T2125. For more information about CCA, see “Capital cost allowance” on page 12.

To calculate the vehicle expenses you can claim, **multiply** the total operating expenses for the vehicle by the business kilometres and **divide** the result by the total kilometres.

Report the motor vehicle operating expense on line 9281 of Form T2125.

Note

There is a **limit** to the amount of interest, leasing costs and CCA you can deduct for a vehicle you use for your daycare. We explain these limits in Chapter 3, “Motor vehicle expenses,” of Guide T4002.

Example

Kayla runs a daycare in her home. Every week, she uses her van to take the children out to a museum or a gallery. In the year, she drove a total of 20,000 kilometres. Out of those, she drove 2,500 kilometres for the outings with the children. The operating expenses for Kayla’s van were \$3,700.

She calculates the business part of these expenses as follows:

$$\begin{aligned} &\$3,700 \text{ in operating expenses} \times \\ &(2,500 \div 20,000 \text{ km}) = \$462.50 \end{aligned}$$

Kayla can deduct \$462.50 for the business part of her vehicle expenses.

Office expenses

You can deduct the cost of things such as stamps, envelopes, paper, and receipt books that you use for your business.

Report these expenses on line 8810 of Form T2125.

Supplies

You can deduct the cost of the following:

- **supplies**, such as toys, books, and arts and crafts items that the children in your daycare use;
- **household supplies** that the children in your daycare use, such as blankets, towels, toothbrushes, diapers, and shampoo; and
- **food** you buy to feed the children in your daycare.

Report the total expenses for supplies and food on line 8811 of Form T2125.

Legal, accounting, and other professional fees

As a self-employed individual, you can deduct accounting and legal fees you pay for advice or help preparing and filing your income tax return.

Report this expense on line 8860 of Form T2125.

Salaries, wages, and benefits

You **can** deduct the salaries paid to your employees. You can also deduct your **employer** part of payroll contributions, such as:

- Canada Pension Plan or Quebec Pension Plan contributions;
- provincial parental insurance plan premiums (if applicable to your province); and
- employment insurance premiums.

For information on your responsibilities as an employer, see “Your employees” on page 18.

Report this expense on line 9060 of Form T2125.

Field trips

You can deduct expenses to take the children in your care on field trips. You must have documents to support these expenses, such as taxi receipts, parking receipts, and entry-ticket stubs.

If you use your vehicle to take children on field trips, you might be able to claim motor vehicle expenses. For more information on motor vehicle expenses, see page 10.

Report expenses for field trips on line 9200 of Form T2125.

Capital cost allowance

You **cannot** deduct in a year the full cost of depreciable property, such as vehicles, furniture, or office equipment. Instead, each year you can deduct a part of their cost as **capital cost allowance (CCA)**.

There is a maximum amount of CCA that you can claim each year for each class of depreciable property. For example, the CCA rate for class 8, which covers most furniture and equipment found in a daycare, is 20%.

Often, the capital cost of property is its purchase price, including any delivery charges, provincial or territorial sales tax, as well as GST or HST.

If you use depreciable property for both business and personal use, you can claim CCA only on the business part.

Some provinces and territories give grants to buy daycare equipment. If you receive a grant for this purpose, and you buy depreciable property with some of the grant, do not include in your income the part of the grant you used to buy the depreciable property. Instead, reduce the capital cost of the depreciable property by the part of the grant used to buy the property.

You can use Form T2125 to calculate your CCA. For more information, see Chapter 4 of Guide T4002.

Report your CCA expense on line 9936 of Form T2125.

Business-use-of-home expenses

If you use your home for your daycare business, you may be able to claim **part** of the expenses for running your home. These expenses include:

- public services (electricity, water);
- heat;
- insurance;
- maintenance;
- mortgage interest;
- property taxes; and
- rent.

You have to calculate what part of the total expenses related to running your home is for business use and what part is for personal use.

To calculate the part you can deduct, use a **reasonable** basis such as the area used for daycare **divided** by the total area of your home. You will have to further reduce the amount you can deduct if the area is used for both your daycare and personal living.

The amount you can deduct for business-use-of-home expenses cannot be more than your net income from the daycare business before you deduct these expenses. Therefore, you **cannot** use home expenses to create or increase a business loss.

Note

Any such expenses that cannot be used in the year they were incurred because they would create or increase a business loss can be claimed in a future year in which you still used your home for daycare. However, the expenses cannot create or increase a business loss for the year in which you want to apply them.

Report these expenses on line 9945 of Form T2125.

Rooms for daycare use only

If you use one or more rooms, including any in the basement, **exclusively** for your daycare, you can determine the amount to claim based on the area of your home.

You **divide** the area used for your daycare by the total area of your home, and **multiplying** this result by your total annual home expenses.

Example

Sonia has a daycare in her home and uses the basement exclusively for this business. The daycare area is 20 square metres and the total area of her home is 120 square metres. Sonia's annual household expenses are \$6,000. She calculates the deductible portion of her allowable expenses using the formula:

$$\frac{\text{Area used for business}}{\text{Total area of the home}} \times \text{Total expenses}$$

The calculation is as follows:

$$(20 \div 120 \text{ metres}) \times \$6,000 \text{ in household expenses} = \$1,000$$

Sonia can deduct \$1,000 of her household expenses as business-use-of-home expenses.

Rooms used for both daycare and personal living

If you use part of your home for **both** daycare and personal living, calculate how many hours in the day you use the rooms for daycare, then **divide** that amount by 24 hours. **Multiply** the result by the daycare part of your total annual home expenses (see the previous example). This will give you the home expenses you can deduct.

If you run the business for **only part** of the week or year, reduce your claim accordingly.

Example

Danny runs a daycare in his home weekdays for 10 hours out of a 24-hour day. The children use an area of 35 square metres. The house is 100 square metres, and the annual home expenses are \$5,800.

The calculation is as follows:

$$(10 \div 24 \text{ hours}) \times (35 \div 100 \text{ metres}) \\ \times \$5,800 \text{ expenses} = \$845.83$$

The daycare only operates 5 days a week, so Danny has to do another calculation.

$$\$845.83 \times (5 \div 7) \text{ days} = \$604.16$$

Danny can deduct a total of \$604.16 for home expenses.

Other expenses

Telephone

You **can** claim the cost of long-distance telephone calls made for your daycare. However, you **cannot** deduct monthly telephone service charges unless you use the telephone only for your business.

You can also deduct the percentage of airtime expenses for a cellular telephone that relates to earning your business income.

If you lease a fax machine, you can deduct the percentage of its lease that relates to earning business income. However, if you buy a fax machine, you cannot deduct its cost.

Training

You may be able to deduct the cost of taking a course or seminar on child care. For more information, see Interpretation Bulletin IT-357, *Expenses of Training*.

However, you **cannot** deduct as a business expense any tuition fees you paid to educational institutions such as universities and colleges. Instead, you may be able to claim them as a **non-refundable tax credit** on your return. For more information, see "Line 323 – Tuition, education, and textbook amounts" in the *General Income Tax and Benefit Guide*.

Private health services plan premiums

Self-employed individuals may be able to deduct from their business income the premiums they pay to a private health services plan. For more information, see Guide T4002.

Report these expenses on line 9270 of Form T2125.

Other reasonable expenses

It is often difficult, for example, to separate, when the groceries are bought together, the cost of feeding your own children from the cost of feeding the children in your daycare. This is also true if you do your own laundry at the same time as you do the laundry for the daycare. As long as the other expense is related to daycare activities and is reasonable, it will be allowed.

Keeping records

You have to record your income and expenses, and keep bills, receipts, bank statements, and cancelled cheques that relate to your daycare. Your records should be complete, organized, and filed by year.

Good records will help you prepare your income tax return. They can remind you of expenses you might otherwise overlook. Good records can also prevent problems during a review of your returns.

If you are claiming motor vehicle expenses, you will need a record of the kilometres travelled for personal use and for business use. If you change vehicles during the year, record the mileage when you started and stopped using each vehicle. To claim capital cost allowance, you need to have the original invoice for your vehicle or, if there is a change in use, the fair market value (FMV) of your vehicle when you first begin to use it for business purposes. In the future, if you change the use of the vehicle back to personal, you will have to determine the FMV of the vehicle at that time. For more information on FMV, see Guide T4002, *Business and Professional Income*.

Although you have to support expenses with individual invoices, monthly credit card statements are good reminders of them. Personal chequing accounts are also good reminders of expenses, because you generally get a monthly statement from your financial institution.

When you write a cheque, we suggest you mark the date, amount, and purpose of all cheques on their stubs.

Do not send your records with your return.

You must keep your records for **at least six years** from the end of the tax year to which they relate in case we ask to see them later.

If you want to destroy your records before the end of the six-year period, you have to get **written permission** from your tax services office. To do this, either use Form T137, *Request for Destruction of Records*, or prepare your own written request. For more information, see Information Circular IC78-10, *Books and Records Retention/Destruction*.

For more information on keeping records, go to www.cra.gc.ca/records or see Guide RC4409, *Keeping Records*.

Your employees

Generally, as an employer, you have to deduct Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions, employment insurance (EI) premiums, and income tax from your employees' remuneration. You also have to deduct provincial parental insurance plan (PPIP) premiums such as the Quebec Provincial Parental Insurance Plan (QPIP). You also have to contribute employer amounts for CPP or QPP contributions, as well as for EI and QPIP premiums.

To find out how to deduct, remit, and report payroll deductions, go to www.cra.gc.ca/payroll, or see Guide T4001, *Employers' Guide – Payroll Deductions and Remittances*, and Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.

The CPP is for all workers including self-employed individuals. Most employers, employees, and self-employed individuals must contribute to the fund. The CPP can provide benefits when you retire or if you become disabled. The plan can also pay benefits to the surviving spouse or common-law partner and dependent children following a contributor's death. For more information on CPP, visit the Service Canada Web site at www.servicecanada.gc.ca.

For more information on how to get a payroll program account, go to www.cra.gc.ca/bn.

To help you calculate your contributions, use the Payroll Deductions Online Calculator at www.cra.gc.ca/pdoc.

You can file your information returns, including T4 returns, electronically. For more information, go to www.cra.gc.ca/iref. You or your authorized representative can file electronically without a Web access code at www.cra.gc.ca/mybusinessaccount, or www.cra.gc.ca/representatives.

The Quebec provincial government collects its own pension plan contributions. If your business is in Quebec, you will remit QPP contributions instead of CPP contributions. For information on the QPP, visit Revenu Québec at www.revenu.gouv.qc.ca/eng or contact Revenu Québec at:

Revenu Québec
3800, rue de Marly
Québec QC G1X 4A5

Telephone: 1-800-567-4692
Québec: 1-418-659-4692

Instalment payments

As a self-employed individual, you may have to pay your income tax, as well as your CPP or QPP contributions on self-employment income by instalments.

If you decide to contribute to the voluntary Employment Insurance program, you may also be required to pay EI contributions on self-employment income by instalments.

In 2014, instalment payments are due on March 15, June 15, September 15, and December 15.

Note

If any of the dates above fall on a Saturday, a Sunday, or a statutory holiday, you have until the next business day to make your instalment payments.

There are different methods to calculate instalment payments. For more information on these methods, see Pamphlet P110, *Paying Your Income Tax by Instalments*.

You may have to pay interest and a penalty if you do not pay the full instalment amount we calculated for you on time.

Every February and August, we will send you an instalment reminder. The February reminder covers the payments due on March 15 and June 15. The August reminder covers the payments due on September 15 and December 15.

For more information on instalments, go to www.cra.gc.ca/instalments.

Issuing receipts

As someone who runs a home daycare, you will be expected to issue receipts to the parents of the children in your care. You should do this as soon as possible to give them time to file their income tax returns.

Receipts you issue have to include all of the following information:

- the name of the person for whom you are preparing the receipt;
- the name of the child of the person for whom you are preparing the receipt;
- the amount received for your services;
- the period you provided these services (from and to dates);

- your name;
- your address;
- your social insurance number;
- your signature; and
- the date you signed the receipt.

Although you can use any format you want, here is a sample that contains all the information we need on the receipt.

Sample receipt form

Received from _____
for caring for _____ (name of child)
the sum of \$ _____
for the period from _____ to _____
Services provided by _____ (please print)
Address _____
Daycare provider's social insurance number _____
Signature _____ Date _____

Online services

My Account

Using the CRA's My Account service is a fast, easy, and secure way to access and manage your tax and benefit information online, seven days a week! If you are not registered with My Account but need information right away, use Quick Access to get fast, easy, and secure access to some of your information.

You can use either your CRA user ID and password or your online banking user ID and password to log in to My Account.

For more information, go to www.cra.gc.ca/myaccount.

Handling business taxes online

Save time using the CRA's online services for businesses. You can do many things online, including:

- authorize a representative for online access to your business accounts;
- authorize the CRA to send an email to let you know that you can view a notice of assessment, instead of getting a printed copy in the mail;
- adjust a GST/HST return;
- transfer payments and immediately view updated balances;
- stop or restart the mailing of the GST/HST return for registrants package;
- submit account-related enquiries and get the responses online within 10 business days; and
- view mail (for example, a notice of assessment)

To register or log in, go to:

- www.cra.gc.ca/mybusinessaccount, if you are a business owner; or
- www.cra.gc.ca/representatives, if you are an authorized representative or employee.

For more information, go to www.cra.gc.ca/businessonline.

Electronic payments

Make your payment online using the CRA's My Payment service at www.cra.gc.ca/mypayment or using your financial institution's telephone or Internet banking services. For more information, go to www.cra.gc.ca/payments or contact your financial institution.

For more information

What if you need help?

If you need more information after reading this publication, visit www.cra.gc.ca or call 1-800-959-5525.

Forms and publications

To get our forms and publications, go to www.cra.gc.ca/forms or call 1-800-959-5525.

Electronic mailing lists

We can notify you by email when new information on a subject of interest to you is available on our Web site. To subscribe to our electronic mailing lists, go to www.cra.gc.ca/lists.

Tax Information Phone Service (TIPS)

For personal and general tax information by telephone, use our automated service, TIPS, by calling 1-800-267-6999.

Teletypewriter (TTY) users

TTY users can call 1-800-665-0354 for bilingual assistance during regular business hours.

Our service complaint process

If you are not satisfied with the **service** that you have received, contact the CRA employee you have been dealing with or call the telephone number that you were given. If you are not pleased with the way your concerns are addressed, you can ask to discuss the matter with the employee's supervisor.

If the matter is not settled, you can then file a service complaint by completing Form RC193, *Service-Related Complaint*. If you are still not satisfied, you can file a complaint with the Office of the Taxpayers' Ombudsman.

For more information, go to www.cra.gc.ca/complaints or see Booklet RC4420, *Information on CRA – Service Complaints*.

Tax information videos

We have a number of tax information videos for individuals and small businesses on topics such as preparing your income tax and benefit return, and reporting business income and expenses. To watch our videos, go to www.cra.gc.ca/videogallery.

Your opinion counts

If you have comments or suggestions that could help us improve our publications, send them to:

Taxpayer Services Directorate
Canada Revenue Agency
395 Terminal Avenue
Ottawa ON K1A 0L5