



Canada Revenue
Agency

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Using Your Home for Day Care

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Forms and publications

Throughout this pamphlet, we refer to other forms and publications that give more details on specific tax topics. You can visit our Web site at www.cra.gc.ca/forms to find our publications.

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In this publication, we use the name “Canada Revenue Agency” and the acronym “CRA” to represent the Canada Customs and Revenue Agency. This reflects recent changes in the structure of Agency.

The term **income tax return** used in this pamphlet 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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Before you start

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

This pamphlet explains whether you can claim expenses, what expenses you can claim, your responsibilities as an employer, and the importance of keeping good records.

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

Do you have any questions?

If you need more help after reading this pamphlet, visit our Web site at www.cra.gc.ca or call our Business Enquiries number at 1-800-959-5525.

Are you self-employed?

You can claim day-care expenses on your income tax return if you are self-employed and you report income from self-employment.

The amount of control a parent has over your work determines whether or not you are self-employed. You usually make this clear with the parent when the two of you decide how you will perform day-care services.

Generally, you are self-employed if you control:

- the number of hours you work;
- the premises and materials you use; and
- the way you perform your day-care duties.

If you are not self-employed or if you care for children part time or occasionally, you cannot deduct business expenses. You will report your earnings on line 104 as “Other employment income” on your income tax return.

Generally, **you are not self-employed** if you work at the parent home and that person:

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

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

Reporting your income

Report your self-employed day-care earnings on lines 162 and 135, (Business income) of your income tax return. Include gross income and net income, or loss.

Note

Include **all of your income** when you calculate it for tax purposes. If you repeatedly fail to report all of your income, you may be subject to a penalty of 10% of the amount you failed to report.

Fiscal period

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. For an existing business, the fiscal period is usually 12 months. Although a fiscal period cannot be longer than 12 months, it can be shorter. This may happen when a new business starts or when an existing business stops.

Self-employed individuals generally have to use a December 31 year-end. However, you may be able to use an alternative method of reporting your business income. This will allow you to keep a fiscal period that does not end on December 31. If you have a fiscal year-end that is not December 31, see the guide RC4015, *Reconciliation of Business Income for Tax Purposes*. The guide will help you to determine how to calculate the amount of business income to report on this year's income tax return. The guide includes Form T1139, *Reconciliation of Business Income for Tax Purposes*.

In most case, if you filed Form T1139 with your prior year's income tax return, you have to file the form again this year.

Accrual method

As a self-employed person, you must report business income by using the accrual method of accounting. With 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 not. **Incur** usually means you either paid or will have to pay the expenses.

Your **gross income** includes all of the payments you receive during the year from parents, as well as all subsidies (such as provincial or territorial grants) you receive to care for children.

To calculate your **net income**, subtract all of your expenses that relate to caring for children from your gross income.

For more information, see the guide T4002, *Business and Professional Income*. It includes Form T2124, *Statement of Business Activities*, which may help you calculate your self-employment income. We encourage you to use this form. However, you do not have to use it, since we still accept other types of financial statements.

Claiming your expenses

You can deduct on your income tax return any **reasonable** expenses you incur to earn your day-care income. However, you cannot deduct personal expenses.

In this section, we describe the expenses you can deduct if you incur them to run your day care. Also, we tell you on which line of Form T2124, *Statement of Business Activities*, you can claim each kind of expense. For more information, see Chapter 3 in the T4002, *Business and Professional Income* guide.

Advertising

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

Report this expense on line 8521 of Form T2124.

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. You cannot deduct club membership dues (including initiation fees) if the main

purpose of the club is dining, recreation, or sporting activities.

Report this expense on line 8760 of Form T2124.

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 day-care business; and
- your insurance company did not pay for the repairs or reimburse you for the expense.

You cannot deduct the cost of your own labour. Keep any bills for repairs or replacements. Repairs to your house or furnishings do not include replacing furniture or floor coverings.

Report this expense on line 8960 of Form T2124.

Management and administration fees

You can deduct management and administration fees incurred to operate your business, including bank charges. Bank charges include charges for processing cheques and money orders.

Report this expense on line 8871 of Form T2124.

Motor Vehicle expenses

If you use your vehicle **occasionally** for business, it may be easier for you to claim gas and other expenses for each trip. For example, taking children to a park or on a day's outing might involve expenses for gasoline, parking, and entrance fees. These are all business expenses that you can claim.

However, when you **regularly** use your vehicle for business and personal use, you can only claim the part of the total expenses that is for business use. Keep accurate records to show the ratio of business to personal use.

Operating expenses include:

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

To calculate the vehicle expenses you can claim, multiply the total operating expenses for the vehicle, do not include capital cost allowance (CCA) by the following fraction:

$$\frac{\text{Business kilometres}}{\text{Total kilometres}}$$

Report this expense on line 9281 of Form T2124.

Example

David runs a day care in his home. Twice a week, he uses his van to drive the children on field trips to museums and to the library. During the year, he drove the children 2,500 kilometres out of his total of 20,000 kilometres. Operating expenses for his van were \$3,700.

$$\$3,700 \text{ in operating expenses} \times 2,500/20,000 \text{ km} = \$462.50$$

David **can** deduct \$462.50 for the business part of his vehicle expenses.

You can also claim CCA on line 9936 of Form T2124. For more information about CCA, see Chapter 4 of the T4002, *Business and Professional Income* guide.

Note

There is a limit to the amount of capital cost allowance, interest, and leasing costs you can deduct for the vehicle that you use for your day care. We explain these limits in the T4002, *Business and Professional Income* guide.

Office expenses

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

Report the expense on line 8810 of Form T2124.

Supplies

You can deduct the cost of:

- play supplies, such as toys, books, and arts and crafts items; and
- household supplies that the children in your care use, such as blankets, towels, toothbrushes, diapers, and shampoo.

Food

You can claim the cost of the food you feed the children in your care.

Report the total expenses for supplies and food on line 8811 of Form T2124.

Legal, accounting, and other professional fees

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

Report this expense on line 8860 of Form T2124.

Salaries, wages, and benefits

You **can** deduct the salaries you pay to your employees. Also, as an employer, you can deduct **your part** of the Canada Pension Plan or Quebec Pension Plan contributions and Employment Insurance premiums. For information on your responsibility as an employer, see “Your employees” on page 18.

Report this expense on line 9060 of Form T2124.

Field trips

You **can** deduct expenses for field trips for the children in your care. You should support these expenses with things such as taxi receipts, parking receipts, and entry-ticket stubs.

If you use your vehicle occasionally to take children on field trips, you **can** claim the cost of gas used instead of calculating a percentage of your total vehicle expenses. You can read about vehicle expenses on page 9 of this pamphlet.

Report this expense on line 9200 of Form T2124.

Capital cost allowance (depreciation)

You **cannot deduct** the cost of furniture, office equipment, or a vehicle if you use them for business purposes. However, since these properties (which we call **depreciable properties**) will decrease in value over time, you can deduct part of their cost as **depreciation** or **capital cost allowance (CCA)**.

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

In most cases, the capital cost of property is the amount **you pay for it**, including delivery charges, provincial or territorial sales tax, and goods and services tax (GST) or

harmonized sales tax (HST) in the provinces where that tax applies. If you use property, such as a vehicle, for both business and personal use, you can claim CCA on the business part **only**.

Some provinces and territories give grants to people who run a day care to buy day-care equipment. If you receive such a grant and buy depreciable property, do not include in your income the part of the grant that you used to buy the equipment. Instead, use it to reduce the capital cost of the property you bought.

You can use Form T2124 to calculate your CCA. For more information, see Chapter 4 of the T4002, *Business and Professional Income* guide.

Business-use-of-home expenses

If you use your home for your day-care business, you may be able to claim **part** of the expenses of running your home, such as:

- electricity
- heat
- water
- insurance
- maintenance
- mortgage interest
- property taxes
- rent

You have to calculate which part of the total expenses related to running your home is for business use and which part is for personal use. To calculate the part you can deduct, use a **reasonable** amount, such as the area of the space used for the day care **divided by** the total area of your home. You will have to reduce the amount you can

deduct if you use the rooms for both your day care and personal living.

The amount you can deduct for business-use-of-home expenses **cannot** be more than your net income from the business before you deduct these expenses. In other words, you **cannot** use household expenses to create or increase a business loss. However, you can deduct these excess household expenses from day-care income in a later year, as long as you are still using your home for day care.

Report these expenses on line 9945 of Form T2124.

Rooms for day-care use only

If you have one or more rooms that you use **only** for your day care, including a finished or unfinished basement, you can determine the amount to claim based on the area you use. You can claim expenses for your home based on the area of the home you use for your day care **divided** by the total area of your home, then **multiply** the result by your total home expenses.

Example

Jennifer has a day care in her home and she has a finished basement that she uses only for the children. It is an area of 20 square metres in a 120-square-metre house. Jennifer's annual household expenses are \$6,000. She calculates the allowable part of her expenses using the formula:

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

In her case, the calculation is as follows:

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

Jennifer can deduct \$1,000 for household expenses.

Rooms used for both day care and personal living

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

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

Example

Monique runs a day care in her home weekdays from 7:00 a.m. to 5:00 p.m. (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 household expenses are \$5,800. The calculation is as follows:

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

The day care only operates five days a week, so Monique has to do another calculation.

$$\$845.83 \times 5/7 \text{ days} = \$604.16$$

Monique can deduct a total of \$604.16 for household expenses.

Other expenses

Telephone

You **can** claim the cost of long-distance telephone calls that relate to your day care. However, you **cannot** deduct monthly telephone service charges unless you use the telephone only for your business.

Training

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

However, you **cannot** deduct tuition fees you paid to educational institutions such as universities and colleges. You may be able to claim a **tax credit** for these fees. For more information, see your *General Income Tax and Benefit Guide*.

Private health services plan

Self-employed individuals who pay premiums to a private health services plan may be able to deduct those premiums from their business income. For more details, see the T4002, *Business and Professional Income* guide.

Report these expenses on line 9270 of Form T2124.

There are other expenses listed in the T4002, *Business and Professional Income* guide that may apply to your situation.

Keeping records

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

Good records will help reduce the time you spend preparing your income tax return. They can remind you of expenses you can deduct which you might otherwise overlook. Good records can also prevent problems you may run into if we audit your returns.

If you are claiming motor vehicle expenses, you will need a record of the kilometres you travelled for personal and business purposes. If you change vehicles during the year, record the mileage for each vehicle when you start and stop using it. To claim capital cost allowance, you have to have the original invoice for your vehicle or, if there is a change in use, record the fair market value (FMV) of your vehicle when you first begin to use it for business purposes. If you change the use of the vehicle, from business back to personal in the future, you will have to determine the FMV of the vehicle at that time.

Monthly credit card statements are good reminders of expenses, although you have to support them with individual invoices. In the same way, a personal chequing account is convenient because you get a monthly statement from the bank. Regardless of what kind of account you have, we suggest you mark the date, amount, and purpose on all cheque stubs when you write the cheques. You should put the same information on the backs of cancelled cheques before you file them.

Do not send us your records with your income tax return, but keep them in case we ask to see them later.

Time limit

Usually, you have to keep your records for **at least six years** from the end of the tax year to which they relate. If you want to destroy them before the end of the six-year period, you have to first get **written permission** from the director of your tax services office. To do this, either use Form T137, *Request for Destruction of Books and Records*, or prepare your own written request. For more information, see the Information Circular 78-10, *Books and Records Retention/Destruction*.

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' wages. You also have to contribute an amount, for your employees, for CPP or QPP contributions and EI premiums. To find out how to deduct, remit, and report payroll deductions, read guide T4001, *Employer's guide – Payroll Deductions and Remittances*.

If you have never sent us these amounts before, contact us or visit our Web site to get a Business Number (BN), find out how to remit your deductions, and get other useful information.

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, contact Revenu Québec. You will find the address and telephone number in the Government of Quebec section of your telephone book.

Instalment payments

Once you start to operate a day care as a self-employed person, you may have to pay your income tax by instalments.

If you have to make instalment payments, we will mail you reminders twice a year. These instalment reminders will indicate the amounts you can pay.

For information on how and when to make your instalments, read the pamphlet P110, *Paying Your Income Tax by Instalments*.

Issuing receipts

As someone who runs a home day care, 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.

Here is a sample receipt form to help you. You can use any format you want, but this sample shows the information we need for income tax purposes.

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 _____
Social insurance number _____
Signature _____ Date _____

Did you know?

If you provide day 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 day-care service you provide is exempt from goods and services tax/harmonized sales tax (GST/HST). This means that you do not have to add GST/HST to the amount you charge the parents of the children in your care.

Your opinion counts!

We review our publications each year. If you have any comments or suggestions that would help us improve them, we would like to hear from you.

Please send your comments to:



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Corporation Internet Filing

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GST/HST

- With GST/HST NETFILE and GST/HST TELEFILE, you get immediate confirmation that we have received your return. Also, see how fast you get your refund, even faster with direct deposit. GST/HST Electronic data interchange (EDI) is also an option. For more information, visit: www.cra.gc.ca/gsthst-filing.

Electronic payments for business

- Pay your business taxes electronically through your financial institution's telephone and Internet banking services. For more information, visit: www.cra.gc.ca/electronicpayments, or check with your financial institution.

