



Canada Revenue  
Agency

Agence du revenu  
du Canada

# Using Your Home for Daycare

## Is this booklet for you?

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

This booklet will help you determine the expenses you can claim. It also explains 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 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.

If you have a visual impairment, you can get our publications in braille, large print, etext (CD or diskette), or MP3. For more information, go to [www.cra.gc.ca/alternate](http://www.cra.gc.ca/alternate) or call **1-800-959-2221**.

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?*

## What's new for 2010?

### **Employment Insurance Benefits for Self-Employed Persons**

Self-employed Canadians can now register to be eligible to receive Employment Insurance special benefits, which include maternity, parental, sickness and compassionate care benefits, beginning in January 2011.

For more information on eligibility and application, visit [www.servicecanada.gc.ca](http://www.servicecanada.gc.ca). For more information on Employment Insurance premiums, see Guide T4002, *Business and Professional Income*.

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## Are you a self-employed individual or an employee?

The amount of control a parent has over your work determines 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 premises and materials you use; and
- the way you perform your daycare duties.

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

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 occasionally**, you **cannot** deduct business expenses. You will report your 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 income from daycare as business income on your income tax return. Include gross income on line 162 and net income or loss on line 135.

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

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

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

Your **gross income** from the daycare business includes all the income you earned by providing daycare 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 equipment, do not include in your income the part of the grant that you used to buy depreciable equipment. Instead, reduce the capital cost of the property by the applicable part of the grant. See “Capital cost allowance” on page 14.

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 fail to report all your income, you may be subject to a **penalty** of 10% of the amount you failed to 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 attributable 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 date falls on a Saturday, Sunday, or statutory holiday, you have until the next business day to file your return or make your payments.

## **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. This means that you cannot add this tax to the amount you charge the parents of the children in your care and you cannot register for GST/HST. For more information, see Guide RC4022, *General Information for GST/HST Registrants*.

## **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 Guide RC4015, *Reconciliation of Business Income for Tax Purposes*. The guide will help you 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 cases, 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 individual, you must report business income 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.

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

## Claiming your expenses

**Y**ou can deduct on your income tax return any **reasonable** expenses you incur to earn your daycare income. However, you **cannot** deduct personal expenses.

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

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

### **Note**

Do not send your receipts or other records with your income tax return. However, you must keep them in case we ask to see them later. For more information, see “Keeping records” on page 18.

## **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 this expense on line 8760 of Form T2125.

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 repairs or replacements.

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 charges for processing payments.

Report this expense on line 8871 of Form T2125.

## **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 trips, you can claim part of the total operating expenses for business use. Keep accurate records to 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 18.

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.

Do not include capital cost allowance (CCA) in your operating expenses. It is claimed on line 9936 of Form T2125. For more information about CCA, see “Capital cost allowance” on page 14.

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 this expense on line 9281 of Form T2125.

### Note

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

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### Example

Kayla runs a daycare in her home. Twice a week, she uses her van to drive the children on field trips to museums and to the library. During the year, she drove the children 2,500 kilometres out of her total of 20,000 kilometres. Operating expenses for Kayla’s van were \$3,700.

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

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

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## Office expenses

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

Report this expense on line 8810 of Form T2125.

## Supplies

You can deduct the cost of:

- **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 and 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 you pay to your employees. Also, as an employer, you can deduct **your part** of payroll deductions, 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 19.

Report this expense on line 9060 of Form T2125.

## Field trips

You can deduct expenses for **field trips** for the children in your care. You should support these expenses with documents, 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 motor vehicle expenses on page 11.

Report this expense on line 9200 of Form T2125.

## Capital cost allowance

You **cannot** deduct the cost of a vehicle, furniture, or office equipment 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 **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 daycare, 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 GST or HST. 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 buy daycare 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 depreciable equipment. Instead, reduce the capital cost of the property by the applicable part of the grant.

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 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** basis, such as the area used for daycare **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 daycare 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 home expenses to create or increase a business loss. However, you can deduct these excess expenses from daycare income in a future year, as long as you are still using your home for daycare and these expenses would not create or increase a business loss in that year.

Report these expenses on line 9945 of Form T2125.

## Rooms for daycare use only

If you have one or more rooms that you use only for your daycare, including a finished or unfinished basement, you can determine the amount to claim based on the area you use.

You can claim expenses for the business use of your home by **dividing** the area of the home you use for your daycare by the total area of your home, and then **multiplying** the result by your total annual home expenses.

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### Example

Sonia has a daycare in her home and she has a finished basement that she uses only for the children. 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 allowable part of her expenses using the formula:

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

The calculation is as follows:

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

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

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## 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.

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### Example

Danny runs a daycare in his 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 home 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 daycare only operates five days a week, so Danny has to do another calculation.

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

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

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## Other expenses

### Telephone

You **can** claim the cost of long-distance telephone calls that relate to your daycare. 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 "Line 323 – Tuition, education, and textbook amounts," in the *General Income Tax and Benefit Guide*.

## **Private health services plan premiums**

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 information, see Guide T4002.

Report these expenses on line 9270 of Form T2125.

## **Other reasonable expenses**

It is often difficult, for example, to separate the cost of feeding your own children from the cost of feeding children in your daycare program when groceries are bought together or if your own laundry is done at the same time as laundry used during the course of business. As long as the expense claimed associated with these daycare related activities is reasonable, it will be allowed.

## **Keeping records**

**Y**ou 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 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 have 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. In the future, if you change the use of the

vehicle, from business 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*.

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 may be convenient because you may get a monthly statement from your financial institution. 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 back of cancelled cheques before you file them.

Do not send us your records with your income tax return. However, keep them in case we ask to see them later. For more information on keeping records, see Guide RC4409, *Keeping Records*, or go to [www.cra.gc.ca/records](http://www.cra.gc.ca/records).

## 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 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 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' remuneration. You also have to deduct provincial parental insurance plan (PPIP)

premiums such as the Quebec Provincial Parental Insurance Plan (QPIP). Furthermore, you have to contribute employer amounts for CPP or QPP contributions and EI and QPIP premiums.

To find out how to deduct, remit, and report payroll deductions, go to [www.cra.gc.ca/payroll](http://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 basic benefits when you retire or if you become disabled. Furthermore, following a contributor's death, the Plan can pay benefits to the surviving spouse/common-law partner and dependent children. For more information on CPP, visit the Service Canada Web site at [www.servicecanada.gc.ca](http://www.servicecanada.gc.ca).

If you have never sent us these amounts before, go to [www.cra-arc.gc.ca/bn](http://www.cra-arc.gc.ca/bn), to find out how to get a payroll program account, remit your deductions, and get other useful information.

To help you calculate your contributions, go to the Payroll Deductions Online Calculator at [www.cra.gc.ca/pdoc](http://www.cra.gc.ca/pdoc).

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's Web site at [www.revenu.gouv.qc.ca/eng/ministere](http://www.revenu.gouv.qc.ca/eng/ministere) or contact Revenu Québec:

Revenu Québec  
3800, rue de Marly  
Ste-Foy QC G1X 4A5

Telephone: 1-800-567-4692  
Outside Canada: 1-418-659-4692

## Instalment payments

Once you start to operate a daycare as a self-employed individual, you may have to pay your income tax and CPP or QPP contributions on self-employment income by instalments.

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

Your 2011 instalment payments are due on March 15, June 15, September 15, and December 15.

### Note

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

There are different methods that you can use to calculate instalment payments. To determine which calculation method is the best for you, see Booklet P110, *Paying Your Income Tax by Instalments*. However, in most cases, we will send you a notice indicating an instalment amount we have calculated for you.

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

To help you calculate your instalments, go to [www.cra.gc.ca/instalments](http://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.

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

### 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 _____

## For more information

### What if you need help?

If you need more help after reading this booklet, visit [www.cra.gc.ca](http://www.cra.gc.ca) or call 1-800-959-5525.

### Forms and publications

To get any forms or publications, go to [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms) or call 1-800-959-2221.

### My Account

**My Account** is a secure, convenient, and time-saving 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 now. For more information, go to [www.cra.gc.ca/myaccount](http://www.cra.gc.ca/myaccount) or see Pamphlet RC4059, *My Account for individuals*.

### My Business Account

You can now use the Instalment payment calculator service to calculate your instalment payments and view their due dates.

To learn more about the growing list of services available in My Business Account, go to [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount).

### Represent a Client

Authorized representatives can view account information and transact online for their business and individual clients through the Represent a client service. Business owners can authorize their representatives through My Business Account, or with Form RC59, *Business Consent Form*. Individuals can authorize their

representatives through My Account, or with Form T1013, *Authorizing or Cancelling a Representative*. For more information, go to [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives).

## **My Payment**

My Payment is a payment option that allows individuals and businesses to make payments online, using the Canada Revenue Agency's Web site, from an account at a participating Canadian financial institution. For more information on this self-service option, go to [www.cra.gc.ca/mypayment](http://www.cra.gc.ca/mypayment).

## **TIPS (Tax Information Phone Service)**

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** you have received, contact the CRA employee you have been dealing with (or call the phone number you have been given). If you still disagree with the way your concerns are being addressed, ask to discuss the matter with the employee's supervisor.

If the matter is still not resolved, you have the right to file a service complaint by completing Form RC193, *Service-Related Complaint*. If you are still not satisfied with the way the CRA has handled your complaint, you can contact the Taxpayers' Ombudsman.

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

## **Your opinion counts**

If you have any comments or suggestions that could help us improve our publications, we would like to hear from you. Please send your comments to:



**Taxpayer Services Directorate  
Canada Revenue Agency  
750 Heron Road  
Ottawa ON K1A 0L5**