

# Child Care Credits For Small and Medium Size Businesses

## Issue

Owners of small and medium size businesses are unfairly treated when it comes to child care expenses. Currently, child care expenses can only be deducted against employment income of the lower income earner of the family. However, often owners of small and medium size businesses choose to pay themselves dividends, generally non-eligible<sup>1</sup>, rather than a salary and are often the lower income earner which then prohibits the owner from deducting child care expenses. The current rules<sup>2</sup> don't help small and medium size business owners in their risky pursuit of creating business and wealth for the economy.

## Background

Child care expenses are generally deducted from the lower income earner of a family, based on employment income with only the following exemptions presently in place<sup>3</sup> and with no proposal to change.

- Lower income earner is in the hospital or medically unfit
- Lower income earner is in school
- Lower income earner is in jail

For a variety of reasons including managing cash flows, reducing the additional financial burden required of an employer in regards to the company portion of Canada Pension Plan contributions which would arise if the owner paid themselves a salary, adding an additional level of complexity in calculating the salary of the owner if they don't have employees or as a general rule of compensations, often times an owner of a small and medium size business will decide to take non-eligible dividends as compensation.<sup>4</sup> This is usually not a significant amount but is just enough not to go bankrupt or under capitalize the company but is enough to live personally. However, in doing so it generally prohibits the owner of the small and medium size businesses from deducting child care expenses because they are often the lower income earner and none of their income is eligible for the deduction of child care expenses.

This is a pressing issue since we know the majority of businesses in this country are private businesses that have access to this financial model. Small and medium size businesses are the engine of this country, and the drivers of those engines are the entrepreneurs that take the risks, including cash flow risk. They should not be unfairly treated with the current deduction policy.

## Recommendations

That the federal government:

1. Permit the owners of Canadian Controlled Private Corporations (CCPCs) receiving non-eligible dividend income to claim child care expenses against that income.
2. Permit CCPC owners receiving non-eligible dividend income to transfer child care expenses to the higher income earner of a family.

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<sup>1</sup> <http://www.taxtips.ca/dtc/smallbusdtc.htm>

<sup>2</sup> <http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/ncm-tx/rtrn/cmpltng/rprtng-ncm/lns101-170/120/menu-eng.html>

<sup>3</sup> <http://www.cra-arc.gc.ca/tx/tchncl/ncmtx/fls/s1/f3/s1-f3-c1-eng.html>

<sup>4</sup> <http://www.wolrigemahon.com/salary-dividends>