

H&R Block Self-Employed Online Tax Preparation Guide

FOR CHILD CARE BUSINESSES

AUGUST 2022

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Why Tax Prep Software is a Good Idea for Child Care Business Owners

Many child care business owners can prepare their own taxes. Using tax software is a great way to save yourself time and money. It also can give you peace of mind since many calculations are performed for you and there are automated cross-checks to ensure you are properly accounting for your revenue and expenses. According to the IRS, filing electronically helps you [avoid common and costly errors](#). Best of all, it puts you in the driver's seat of this essential business responsibility – filing your annual tax return.

How to Use this Guide

You may feel a bit intimidated by the idea of doing your own taxes for your child care business but using this guide and other tools built just for you will prepare you to have a hassle-free experience that can save you money, ward off the risk of audit, and help you set goals to improve your business practices and tax preparation for many years to come. You'll come out of tax season confident about your filing and your understanding of it.

This guide is best for self-employed child care business owners. These may include family home-based child care or child care centers that are owned by a sole proprietor.

It's best to use this guide as a reference while you're preparing for and completing your tax filing. The goal of this guide is to allow you to accurately claim your child care business revenue and expenses. Completing the data entry that will form your **Schedule C** is the focus of this guide. We will not review the tax preparation associated with your personal (non-business) taxes. Rest assured, using tax software will allow you to ensure you're accurately claiming your personal credits and other items!

Note that this guide is not tax, financial advice, or an endorsement of H&R Block. The authors are not affiliated with H&R Block.

Introduction to H&R Block and Your Tax Filing

H&R Block offers various versions of its tax product. First, you will need to decide if you want to prepare your taxes using the online version or a software download. For this guide, we used the [online Self-Employed version of the software](#). In this version, you have access to essential forms such as the Schedule C and the ability to search for business deductions that you can take. Those features are not available through the basic package. This product was priced at \$115 in 2021.

As you navigate through the system, understand that the goal is to ensure you have a fair and accurate return so that you are protected in the event of an audit. The best way to avoid questions by the IRS is to avoid any issues that increase your chances of an

audit, usually referred to as “red flags.” The most common red flags for child care businesses are:

- Not including all your income on your taxes – such as leaving out a 1099 you received from the Wisconsin Early Childhood Association for the REWARD stipend, or other taxable income that came to your program through state funding, like Child Care Counts payments.
- Claiming irrelevant expenses or ones that are unusually high – like a provider who claimed \$40,000 in cell phone expenses for herself each year.
- Taking a very large loss on your business – businesses will take a loss from time to time, but you want to avoid having losses that are far more than what you earned. If you have not turned a profit in three of five consecutive years, you could be at risk of being determined to be a “hobby” and not a business by the IRS (which will change your ability to deduct expenses greatly).
- Claiming 100% use of your vehicle – this is especially true for home-based providers. Some of you may have a van or car you use for transportation. That’s alright; however, reporting that the vehicle is only used for work (and never for personal reasons) can draw attention since it is less common.

To help prepare your taxes with ease, you want to be sure that you have your revenue and expense records up to date and handy. Perhaps you have an accounting system where this data can be pulled from, or you have a recordkeeping system with this information. You will generally need:

- 1099 forms
- Bank and credit card records
- Canceled checks
- Year-end or weekly receipts that show what parents/families paid for child care
- Paid receipts or invoices for goods or services that you purchased
- Payroll records, if applicable
- Mileage records documenting the business use of your vehicle
- Time-Space percentage calculation for family child care providers

Important considerations when selecting a platform to prepare your taxes:

Civitas Strategies Early Start tested the online, Self-Employed versions of three mainstream tax preparation software systems: H&R Block, Tax Act, and Turbo Tax. Among all three software, CSES found H&R Block's to be the **least effective** in educating the sole proprietor about the process of preparing their taxes. H&R Block does not explain why you must enter certain information or how they are using taxation calculations to calculate your deductions.

Even more troubling, H&R Block integrates depreciation, a critical deduction for businesses, into several steps of claiming expenses. Without separating depreciation as its own category, as the other tax software do, H&R Block deprives the user of the ability to be informed about and in control of the several options available for depreciating their assets.

Since the paths to depreciate assets in H&R Block's software are embedded in different sections of the process, it is very difficult to explain or track how to report depreciable assets.

First Things First

You will need to enter basic demographic information about yourself:

- Name
- Date of birth
- Marital status
- Social Security Number (SSN)
- Daytime phone number
- Address
- Other information to help determine your personal tax credits, including if you are a U.S. citizen; were a student last year; can be claimed as a dependent on another person's taxes; or have any dependents to claim on your taxes.

Entering Business Income and Expenses

You will first be asked, "Do you want to start on your W-2(s)?" If you were not a W-2 employee for any company during the past year, then you will skip this step. Click **Skip for Now**—although you will not need to revisit this step. Note, you will still want to provide this information for your spouse if they do have a W-2 when prompted.

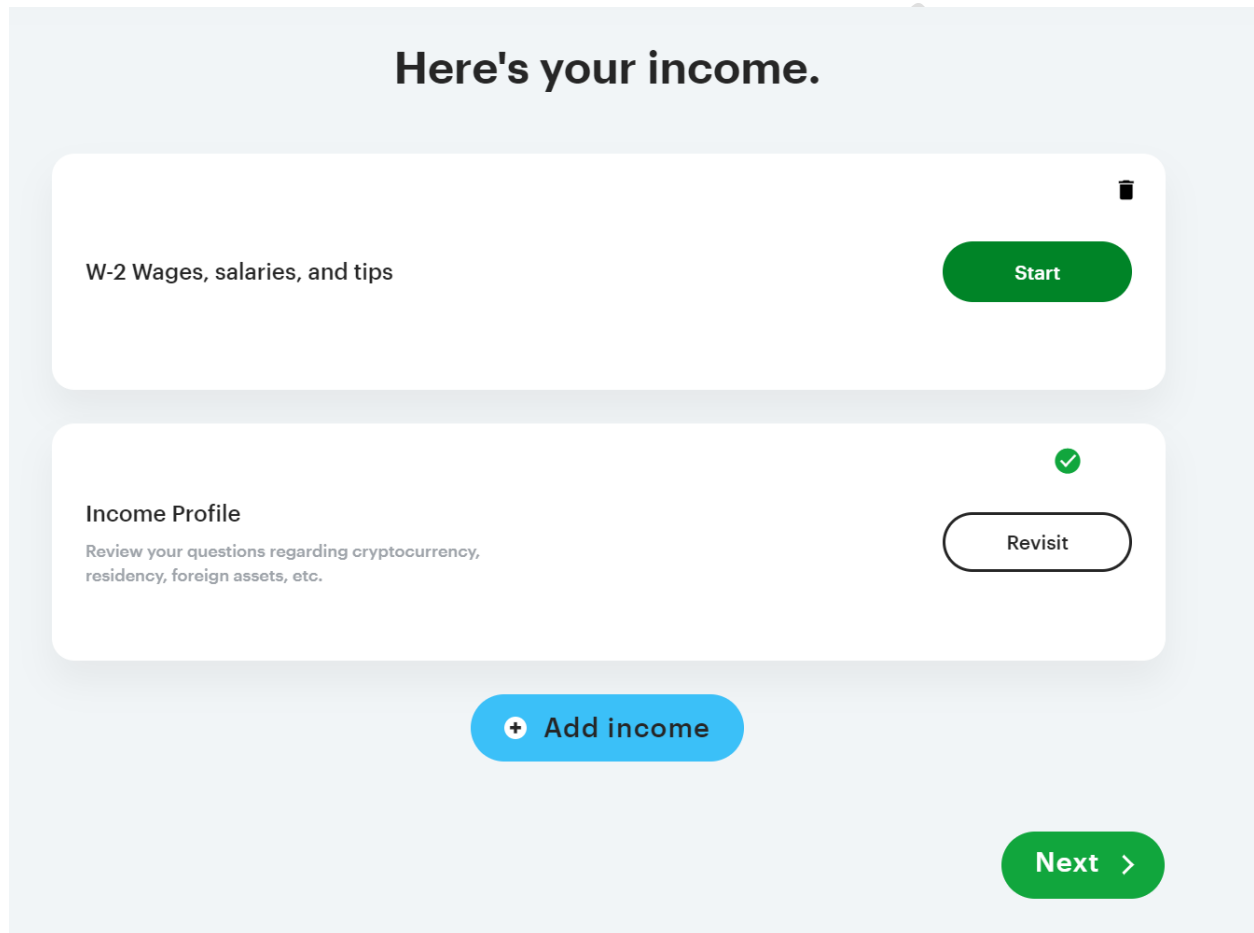
Next, you will also be asked to enter your occupation. Start typing and then select **Child Care Provider**.

You will be asked whether, for the tax year in question, you:

- Received, sold, exchanged, or disposed of any cryptocurrency

- Have any foreign assets or accounts
- Earned money in any state besides the one in which you resided

You will then be brought to the Income home screen. As a sole proprietor, your next step is to click the blue **+ Add income** button. This is important because it allows you to enter your self-employed income.



You will be asked if you have any “common” types of income. You will select **Business income (Self-employed, small business)**. Look through the list to see if there are any other types of income that you should claim specific to your individual circumstances.

Do you have any of these common types of income?

If you've got others, choose "See more income types".



1099-G
Unemployment



1099-R
Retirement, IRA, 401(k), rollovers



1099-INT
Bank, escrow, investment accounts



Business income
Self-employed, small business



1099-DIV
Dividends, capital gains,
distributions



SSA-1099
Social Security

+ See more income types

< Back

Next >

After selecting that you have business income, an option for **Self-employment or business income (Schedule C)** will appear on the income home screen. Click the green **Start** button to begin entering your business income information.

You are again asked what type of work you do. Select **Daycare**.

You will be asked to confirm your business name and business address. H&R Block automatically fills these fields with your full name and your home address. If you have a business name, or if your business is located at another address other than your residential address, you will update these fields.

You will be asked whether, during this tax year:

- The business was conducted outside the U.S. or Puerto Rico
- You started or closed your business this year
- You have employees → You will be prompted to enter your Employee Identification Number (EIN). If you don't have an EIN, consider getting one for privacy reasons. But you can only use an EIN if it was created within the tax year. So, if you created an EIN on January 15, 2023, you could not use it for your 2022 tax return.
- You have inventory
- You paid an independent contractor more than \$600

After you enter these details, you will be brought to your **Business Profile** page and asked to confirm them. This page will also present you with **Additional Tax Situations** which you must manually select:

- **Cash accounting method** – this will automatically be selected
- **Material participation** – this will automatically be selected
- **Registered tax shelter**
- **Losses that weren't at-risk**
- **Passive-loss carryovers from 2020**
- **Statutory employee**
- **Notary public**
- **Exempt from self-employment tax**
- **Employer Identification Number (EIN)** – this will be selected if you entered it after you selected you had employees

Method of accounting – This is a required entry on tax filings. Businesses must state if they use the Cash or Accrual accounting method. H&R Block will automatically assign the Cash Method which is the most common accounting method for small businesses, including child care. This means that your transactions are accounted for at the time you receive a payment or when you pay an expense. You can edit to change to the accrual or another method if it applies, but it is uncommon for child care providers.

Material participation – To materially participate in a business, in most cases means that you and your spouse work at least 500 hours during the year. This question is intended to note if any business owners do not substantially contribute to the business. Most child care providers operating as sole proprietors far exceed the minimum requirements for material participation, so they should click “Yes”.

Income

When brought back to the **Income** homepage, you can now enter your Business Income and Business Expenses.

If you exit the application and come back later, you can access your business income and business expenses at any time by clicking the Edit button within the white square. The white square will say your name if you did not enter a business name. In the example below, “Alexandra CivStrat-Test” is the name of the tax preparer, and since a business name was not entered, the taxpayer’s name represents the business on this page.

Section: Federal > Refund \$0

Self-employment Or Business Income (Schedule C)

Here’s the business or contract income you’ve told us about.

To add another business or any Form 1099, click [Add a business](#).

Alexandra CivStrat-Test

[Edit](#) [Delete](#)

[+ Add a business](#)

[< Back](#) [Next >](#)

You will be asked: ***What types of income did your business have?***

Your revenue should include all the money you took in for your child care business from all sources, even if you are not issued a 1099. This should include cash and money from cash apps for your business.

The most common response for child care businesses will be:

- **Cash/check** (not reported on 1099s). This will mainly be the payments that you receive from families.
- **Form 1099-NEC**. That stands for nonemployee compensation. Likely you will receive a 1099 NEC for other business-related payments received. For instance, if

you receive a subsidy or any other contract payments, and you were issued a 1099 NEC, you will include those here.

Form 1099-NEC income also includes grants and awards received, such as the REWARD stipend from the Wisconsin Early Childhood Association, or other taxable income that came to your program through state funding, like Child Care Counts payments. Be sure to list any grants that you received here. This will make sure that it is taxed correctly as your self-employed income.

In many states, providers receive a 1099-NEC form for payments received from their state's food program and subsidy payments. Some states might not use the 1099-NEC and will instead share the same information in a similar way using a different document. **The IRS prefers for subsidy and food program payments to be included in the Other Income section, even if you received a Form 1099-NEC.**

- **Form 1099-K.** You will receive a 1099-K if you receive \$600 or more in business payments received from cards (credit/debit) or third-party network transactions (Square, PayPal, Venmo, etc.).
- The system also lists **Other Income** as an option. This usually will not be applicable as it is referring to prizes or awards. However, in the case of child care businesses, the IRS prefers you to enter your Child and Adult Care Food Program (CACFP) income here (see the note above).

A note on CACFP income – According to the [IRS Child Care Audit Guide](#), Child Care businesses should enter their CACFP revenue as **Other Income**. This is their preference because it allows them to easily spot CACFP revenue.

Excerpt from the IRS Child Care Audit Guide

A. How to Report Food Reimbursement Payments

- (1) Food reimbursement payments are sometimes reported on a Form 1099. If a provider received a Form 1099, the best way for the provider to report those payments is under the "Other Income" section of the Schedule C and writing in "CACFP Income." The provider should not include the amount of the payments for his/her own children because it is not taxable. Clearly reporting the CACFP payments in this manner will assist the IRS in the selection of returns for examination. If no 1099 is received, the provider can report it under other income or as an alternative method net the payments against the food expense.

After you select these income types, you can enter details for each income type on the **Income** homepage for this business.

Self-employment Or Business Income (Schedule C)

\$0

Alexandra CivStrat-Test



BUSINESS PROFILE



BUSINESS INCOME

+ Add

1099-NEC

\$0 >

Other income

\$0 >

Tell us about your other income.

Other business income

\$48,000

This income is from co-op dividends from an agricultural or horticultural co-op. [What's this?](#)

Include:

- Government reimbursements for snacks and meals provided to day care recipients
 - Prizes and awards related to your trade or business
 - Insurance receipts
 - Legal damages, if taxable
- [Show more examples](#)

Don't Include:

- Interest earned from a business bank account (Enter this in **1099-INT Interest Income**.)
- Loan amounts from a forgiven Paycheck Protection Program (PPP) loan

Below are some helpful worksheets that you can use to organize your income so that you can enter it into the tax system. They can also keep your taxes organized so that you remember what your Schedule C consists of once it's generated.

1099 Income

1099 Payer name	Amount
Total (add all of the 1099s)	

Parent Payments and Fees (including cash)

Parent	Total Amount Paid
Total (add all of the parent payments)	

Other Income (such as grants not associated with a 1099)

Payer name	Purpose	Amount
Total (add all of them together)		

Total Revenue

Total payment	Amount
Total 1099 Payments	
Total Parent Payments	
Total Other Payments	
Total Revenue (add them all up)	

Expenses

You want to make sure you have records of your costs, ideally, receipts showing payment for expenses, but you can also, in most cases, use canceled checks, invoices, or credit card and bank records. It is critical that any proof of an expense show:

- That you paid the expense.
- The amount you paid.
- The date you paid it.
- A description of the item purchased, or service received.

You must manually add the types of business expenses you have incurred to H&R Block by clicking the **+Add** button in the **Business Expenses** section. If you selected that you had a W-2 employee, you will start with the **Employee Wages** category included.

Alexandra CivStrat-Test



BUSINESS PROFILE



BUSINESS INCOME

+ Add

1099-NEC

\$20,000 >

Other income

\$48,000 >



BUSINESS EXPENSES

+ Add

Employee wages

\$14,000 >

In this guide, we review the key deductions that child care business owners should be aware of. Below is a worksheet that you can enter your expenses into before adding them to H&R Block.

We recommend you have this guide handy to cross-reference with the H&R Block categories as you enter your data. Utilize the charts that you find within this guide which were developed using the [Confidence in Quality Tax Prep Rubric©](#).

Common Expenses

Category	Description	Total Expenses (\$)
Advertising	Here you'll enter costs to promote your business including online and print ad costs, brochures, mailers, flyers, business cards, and website costs.	
Vehicle (Car and Truck Expenses) * *The depreciation section refers users to entering their vehicle depreciation in a vehicle depreciation section. In the business expenses menu, there is no option for vehicles- the option is for Car and Truck Expenses.	<p>You will note if the vehicle is owned or leased by you and if you also used this vehicle for personal trips or exclusively for business. The system works well here because it prompts you to clearly separate business miles driven from personal and performs the standard mileage rate calculation for you. It will also give you an opportunity to maximize this expense by ensuring common fees, like parking, tolls, and car loan interest are entered.</p> <p>Do keep in mind you can track and deduct your mileage for business-related trips even ones that don't involve the children in your care, such as going to Costco to buy child care supplies or face-to-face child care training. You can also include in this amount your business portion of car loan interest and parking fees and tolls.</p> <p>For your mileage, make sure you keep track of the day, purpose, and total miles because you will need to enter that information for this deduction. It can be something as simple as:</p> <p>June 9 - 3.25 miles going to Walmart for supplies</p> <p>Next, you will need to determine if you are using the standard mileage deduction or actual expenses to claim your business vehicle expenses. The system will ask you which method you want to use to report this year's vehicle expenses. You also have an option to compare both methods: if you enter your expenses, H&R Block will compare the results and choose the method that gives you the higher deduction.</p> <p>In general, standard mileage deduction is usually better if you drove a lot of miles. This will get you</p>	

	<p>the miles driven multiplied by the IRS mileage reimbursement rate. The IRS standard mileage rate was \$0.56 per mile from January 1, 2022, to June 30, 2022, and then increased to \$0.585 (that is 58.5 cents) per mile through December 31, 2022 due to increased fuel prices. In addition to those standard miles, you can claim the business portion of car loan interest, parking fees, and tolls paid. However, if you use standard mileage, you cannot deduct other costs associated with your car, including gas, repairs/maintenance, insurance, depreciation, license fees, tires, car washes, lease payments, towing charges, auto club dues, etc.</p> <p>Actual expenses might get you a bigger tax break if you had higher repair, gas, and insurance expenses for the year. With actual expenses, you need to keep track of all payments associated with the business use of the vehicle, including car loan payments.</p>	
<p>Supplies</p>	<p>Supplies include items you use with the children such as art supplies, diapers and wipes, toys, learning materials, and cleaning supplies. For home-based providers, H&R Block will allow you to enter in the amount of your expenses but will not apply your Time-Space Percentage to them. This means if you spent \$100 on supplies that were used 100% for your business, enter \$100 in H&R Block. If you spent \$1,000 on supplies that were used for both business and personal use and your Time-Space Percentage is 35%, enter \$350 into H&R Block.</p> <p><u>BE CAREFUL:</u> H&R Block offers ideas for items in this category that you could claim as business expenses. Some recommended items include office supplies. We recommend separating supplies to run day-to-day operations of your child care program (e.g., diapers, toys, learning materials) from office supplies needed to carry out the administrative functions of your business (ink/toner, pens, etc.). Be sure to only count each expense once.</p>	

Office Expenses	<p>In this area, you want to include amounts paid for office supplies (such as ink, toner, paper, staples, writing utensils, office furnishings, etc.) and postage as well as your business communication service costs (such as cell phone service, internet service, second phone line, fax, and video conferencing services). These are very common expenses for child care businesses.</p> <p>Home-based providers will include their Office Expenses in a separate section: Home Office Expenses. <u>Be sure to record office expenses used exclusively for business use in the Office Only section so that it is counted 100%.</u></p>	
Employee Wages and work credits	<p>Make sure that the wages you enter are only for W-2 employees reported to the government. As a sole proprietor, you cannot pay yourself as a W-2 employee. You can take money out of the business, but your “pay” is considered the amount on Line 31 (your net profit or loss) so there’s no need to enter money you took out for yourself throughout the year here.</p>	
Contract labor	<p>The system asks if you made any payments that required you to issue a form 1099. If you issued a form 1099 to someone that you contracted to perform a service, like cleaning, or a substitute, and you paid them more than \$600, you will enter the amount paid.</p> <p>Note – In some cases, child care providers issue 1099 to employees, or helpers and substitutes. If you issued any 1099, enter it as contract labor but be mindful that you are classifying your employees properly. Typically, if you direct how someone works, they are an employee. For more information on classifying staff, see When is Someone a Contractor or an Employee?</p>	
Legal and Professional Services	<p>Include any fees you paid to a lawyer, accountant, or tax preparer, for business use only, as well as membership fees for professional memberships like the National Association of Family Care or</p>	

	the National Association for the Education of Young Children.	
Taxes and Licenses	You can enter taxes (and local taxes, excluding federal taxes) and business license fees here. These should only be taxes and fees that are 100% related to your business. For example, your licensing fee so you can operate a family child care business or a child care center.	
Utilities	This applies to you if you have a separate office or other business property that's not part of your home. Home-based providers will include their utility costs in a separate area, the business use of the home (<i>Home Office Expenses</i>). Many providers will have utility costs which include utilities such as gas, electricity, or water. This also includes trash collection, pest control service, and security alarm monitoring service.	
Employee Benefits	Do you have a company health or accident insurance program? This includes programs associated with your business (not your personal expense) like accident and health plans, group-term life insurance, and dependent care assistance programs. If you offer child care or education assistance, include that here.	
Business Insurance Premiums	This is for insurance that you only took out because you owned a business. Do not include any health insurance costs, auto insurance, or homeowner's insurance. Include your general liability insurance, commercial property, fire/theft/flood, and workers' compensation insurance if you have employees. Home-based providers should not include your homeowner's/renter's insurance (that will be in the section on deducting the business use of your home).	
Health Insurance Premiums	Here you will enter the total amount of health insurance premiums you paid for yourself, your spouse, and your dependents (under age 27) in 2021. You can deduct up to 100% of health	

	<p>insurance premiums for you, your spouse, and your dependents if you're self-employed and have a net profit from the business for which you created the plan. This does not include any premiums you may have paid through a spouse's health insurance offering through their employer.</p> <p>If you or your spouse could participate (even if you declined coverage) in an employer's health plan or in a subsidized program, like the Affordable Care Act, at any time during a given month, you can't take the deduction for that month.</p> <p>The deduction may be limited if the business has low net earnings. This means that you may not be able to deduct 100% of your premiums. This entry should be reduced by any reimbursement received. These deductions are figured as part of your Form 1040, not as part of Schedule C.</p>	
Building or Land Rental	<p>This is rent paid for property used for work only, not for an office in your home. Rental of your home will be included in the section on deducting the business use of your home.</p>	
Other Interest	<p>This includes interest you paid directly related to your business with the exception of mortgage interest (for home-based providers, mortgage interest is reported in the section on the business use of your home). Deductible interest can include interest on business credit cards (not personal ones) and business loans such as the Economic Injury Disaster Loan or an SBA 7a loan.</p>	
Repairs and maintenance	<p>This includes any repairs and maintenance of the space you use or your equipment. Repairs and maintenance are required for you to conserve or maintain your property – these are repairs that do not add value to the property. Home-based providers should not enter repairs and maintenance expenses here because they will be reported in the section on the business use of your home.</p>	

Less common expenses

Category	Description	Total Expenses (\$)
Business Travel	If you traveled for work or paid for business travel expenses for your staff, you will include those costs here. This does not include expenses for mileage or local meals but rather if you had to travel for a conference, training, or business meeting. Include costs like airfare, hotels, rental cars, taxis, and ride share services, and baggage fees.	
Equipment Rental Expenses	This only applies to the rental of business equipment such as copiers, office furniture, computers, printers, etc.	
Employee Pension Plan	These are contributions to your employees' retirement accounts, not your own. Costs include SEP IRAs and SIMPLE IRAs. Sole Proprietors will enter their company retirement in Part II - line 15 of Form 1040 Schedule 1.	
Other Miscellaneous Expenses	<p>Enter amounts for all other expenses that do not fall into any of the other categories, like CPR/first aid training and certification, and the business portion of your tax return software costs.</p> <p>Typically, there are existing categories for many of the expenses that providers list in "Other Expenses". For example, diapers and wipes are often included in Other Expenses, but they can also fit under "Supplies." In cases where there are a large number of or a lot of expenses in Other Expenses, the IRS may do a manual check of your return. Therefore, it is best to keep this expense category to a minimum if possible</p>	

Common but often misunderstood expenses

Here we will walk you through three important and often misunderstood expenses for child care businesses. Properly claiming these deductions can be a significant financial strategy for your business; however, you want to be sure that you are calculating these correctly and have the necessary records on file to back your use of them. They are:

1. Meals
2. The business use of the home (also known as home office)
3. Depreciation/Assets

Meals (100% limit)

This allows providers to enter the cost of fully deductible meals which includes:

- Meals served to children (this includes meals that you were reimbursed for by the Food Program (CACFP).
- Your or your staff’s business meals (i.e., while on business travel, business meetings, or conferences). For tax years 2021 and 2022, your business meals are 100% deductible if food and beverages were purchased from a restaurant.

We will primarily focus on the **meals served to children**. The process for reporting meals served to children differs for child care homes vs. child care centers.

Child Care Centers

Child care centers must report their actual food expenses when claiming the cost of meals served to children. You must still report the reimbursements received from the food as income.

For example, if your total food costs for the year were \$15,000 and you received \$11,000 as a reimbursement, you will still enter \$15,000 as your meals expense and \$11,000 as a revenue line entry labeled “CACFP” or “Food program”.

If you used a food sponsor, you would report your expenses paid and income received from the sponsor, even if you did not receive a 1099 at the end of the year.

Family Child Care Homes

Only home-based providers are allowed to use the standard meal and snack rates for reporting their children's meals expense. This makes your recordkeeping easier than tracking actual expenses.

Tax Year 2022 standard meal and snack rates:

	Breakfast	Lunch/Supper	Snack
Tier 1	\$1.40	\$2.63	\$0.78
Tier 2	\$0.51	\$1.59	\$0.21

According to the [IRS Child Care Audit Guide](#), the allowed rate is based on the Tier I rate under the CACFP. The provider may use the standard meal and snack rate for a maximum of one breakfast, one lunch, one dinner, and three snacks per eligible child per day. There is still a recordkeeping requirement, which includes the name of each eligible

child, dates, and hours of attendance in the family day care, and the type and quantity of meals and snacks served. This limit is higher than the amount of meals that CACFP reimburses, so it is advantageous for providers to track and claim all of the meals they served.

IMPORTANT NOTE –The IRS recommends reporting your full food costs as an expense and your full food program reimbursements as income. So, providers should enter their full costs, not only the difference between their costs and reimbursements.

While H&R Block provides the current standard meal rates for the tax year, when you enter your costs, you will need to must multiply the total meals and snacks served to children for the year by these rates and enter the amount into the system.

	Total number of meals served	Rate	Total amount to enter into the system
Breakfast		X	=
Lunch/Supper		X	=
Snack		X	=

You should use the rates in effect at the start of the tax year. So, for 2022, you would use the 2021-2022 rates since they were in force on January 1, 2022, the start of the year.

Home office/Business Use of Home

As a home-based child care provider, if you regularly use your home in your business and are licensed, you can deduct the cost of your home and other related expenses.

To prepare for claiming these deductions on your return, whether you rent or own your home, there are two steps you need to take: 1) determining the space and time used for care and duties related to your business and 2) determining the allowable expenses related to providing care in your home.

Keep in mind that you can deduct space in your home exclusively used for your child care business. This can include a home office, even if it is just part of a larger room or a storage area where you keep supplies for your business.

When you select H&R Block’s Home Office deduction, you will be asked to:

- Verify your home office address
- Indicate whether you used your home on a **regular, continual basis** for business purposes – the answer to this is **Yes** for all home-based child care providers

- Indicate whether you used your home office **exclusively** for business. If you have a space in your home that is only used for child care business purposes and no personal matters, select **Yes**.
- Whether you use your home for a daycare business – the answer to this is **Yes** for all home-based child care providers
- Whether you owned or rented your home in 2021
- Whether you want to claim your home office expenses through the **simplified deduction** or the **actual expenses** – **Actual expenses** will be the most beneficial deduction for most home-based child care providers; the **simplified** method can exclude costs that would be included through the simplified deduction. Select the **actual expense** method, which will calculate your deduction using the time/space calculation.

At this point, H&R Block guides home-based providers through the [Time-Space Calculation](#). We recommend that you first calculate your Time-Space Percentage on your own, then enter that data into H&R Block and ensure they match or are very close (within one percentage point).

Let's go through each step to calculate the costs of operating a child care business from your home. There is a table to record your answers below.

Calculating the space and time use of your home

Two elements determine how much of your home expenses be deducted – the space regularly used for care and the amount of time it is used on average. We are going to go through the calculation, but there is also [a spreadsheet you can use](#) to make it even easier.

Typically, **space** is measured in the square feet of your home that is used for care and the total square footage of your home. Regular use includes areas that may be used all day (such as a play area) but also ones that are regularly used for only part of the day. To give an idea of an area that is only used part of the day, the IRS guide to auditing child care providers uses the example of a provider with three children who each nap in different rooms at quiet time (so they can rest better). Though the other rooms are just used at nap time, it is a regular use and can be included in your calculation. If a space is used 3 or more times per week, it could be considered “regularly used for business”. As a reminder, children do not have to have access to the space in order to count it as regular use. Areas for child care material storage, a laundry area, and the garage (if it stores a vehicle used for business, lawn mower, or children's toys). Garages, whether attached or detached, should be included in the total square footage calculation.

You can then take the space used in your home for care and divide it by the total square footage of your home to get a percentage:

Space used for care ÷ total square footage of your home = percentage of your home that you use for child care

For example, a provider uses 500 square feet of her 1,100 square foot home, regularly for care. If she divides 500 by 1,100, she finds that she gets .454, or 45.4% of her home is used regularly for care.

A word of caution - H&R Block states that there are two ways that you could calculate the total area of your home. We strongly recommend following the industry standard, which is to measure square footage.

Time is the total number of hours you used your home on average. This includes not only the time that you are caring for children, but also the time you used the space for cleaning, cooking, and preparing for the care of your children. You can also include the time when your business was closed but you were preparing to open. For example, let's say your business is open and provides care for children 10 hours a day typically. During the hours that you are closed, you clean and set up for two hours a day. Combined, this would give you 12 hours a day that you were using your facility. Then let's say you were closed for four weeks but did 10 hours of work during this time to maintain the space and prepare for re-opening. Your total hours would be:

12 Hours a day x 5 days a week x 48 weeks +10 hours when you were closed = 2,890 hours.

You can create a percentage of the business use of your home by dividing your total hours used for care by 8,760 (the total hours in a year).

For example, our provider above uses her home for care 2,890 hours a year. When you divide 2,890 by 8,760 you find that .329 or 32.9% of the time, her home is used for business.

Calculating space and time for the percentage of your home expenses that are deductible is done by multiplying the percentage of space used in your home by the percentage of time it is used.

In our examples above, the provider is using 45.4% of her home for care that is provided 36.5% of the year. If she multiplies 45.4% times 32.9%, she gets 14.9%. So, she can deduct 14.9% of her home expenses.

A word of caution - H&R Block asks you to enter the ***total hours the home is used for daycare***. Here, you will enter the number of hours that the home was used for daycare for the entire year. This number of hours should include both the number of hours that children were present *and* the number of hours that you work in your home when children are not present.

We also have a [spreadsheet](#) that can make these calculations easier.

Business Use of Your Home: Calculating Space & Time

How much space (in square feet) do you exclusively use for your child care? Exclusive use areas are only used for child care business purposes and no personal purposes whatsoever. If no exclusive use, enter 0.	
How much space (in square feet) do you regularly use for your child care? Regular use areas are shared for both personal and child care business purposes.	
What is the total square footage of your home? Include square footage of your basement, garage, porch, and deck in addition to the interior of your home. Do not count patios or yard space, even outdoor play areas.	
Exclusively used space percentage - Divide space used exclusively by the total square feet in your home for a percentage	
Regularly used space percentage - Divide space used regularly by the total square feet in your home for a percentage.	
Total time, in hours, spent a year for care. This can include activities such as bookkeeping and paying bills, planning lessons/activities, purchasing supplies online, communicating with families, any online trainings, and cleaning. Keep track of these other non-direct child care tasks for your records. The best way to figure out your total time is to multiply the average number of hours you work each week and multiply it by the number of weeks you provide care during the year. Exclude any days you were closed and did not perform any business activities. For YoungStar, you must track your time for one full month in the first six months and one full month in the last six months, then extrapolate from there.	
Total hours in a year	8,760
Divide the time spent for care by the total number of hours in a year to create a percentage.	

<p>Multiply your regularly used space percentage by the time percentage</p> <p>If you have no exclusively used space, this is your Time-Space Percentage. You'll use this percentage to deduct your business use of home expenses for your in-home child care services.</p>	
<p>If you have exclusively used spaces: Add to your regularly used Time-Space Percentage your exclusively used space percentage.</p> <p>It will be Space percentage (%) of exclusive use area + (regular use space percentage (%) * time percentage (%)).</p> <p>This will weigh your exclusively use areas higher in your Time-Space Percentage. This is your Time-Space Percentage. You'll use this percentage to deduct your business use of home expenses for your in-home child care services.</p>	

Example: Business Use of Your Home

How much space (in square feet) do you exclusively use for your child care? Exclusive use areas are only used for child care business purposes and no personal purposes whatsoever. If no exclusive use, enter 0.	200
How much space (in square feet) do you regularly use for your child care? Regular use areas are shared for both personal and child care business purposes.	500
What is the total square footage of your home? Include square footage of your basement, garage, porch, and deck in addition to the interior of your home. Do not count patios or yard space, even outdoor play areas.	1800
Exclusively used space percentage - Divide space used exclusively by the total square feet in your home for a percentage.	11.1%
Regularly used space percentage - Divide space used regularly by the total square feet in your home for a percentage.	27.78%

<p>Total time, in hours, spent a year for care. This can include activities such as bookkeeping and paying bills, planning lessons/activities, purchasing supplies online, communicating with families, any online trainings, and cleaning. Keep track of these other non-direct child care tasks for your records. The best way to figure out your total time is to multiply the average number of hours you work each week and multiply it by the number of weeks you provide care during the year. Exclude any days you were closed and did not perform any business activities. For YoungStar, you must track your time for one full month in the first six months and one full month in the last six months, then extrapolate from there.</p>	2,250
Total hours in a year	8,760
Divide the time spent for care by the total number of hours in a year to create a percentage.	25.68%
<p>Multiply your regularly used space percentage by the time percentage</p> <p>If you have no exclusively used space, this is your Time-Space Percentage. You'll use this percentage to deduct your business use of home expenses for your in-home child care services.</p>	$27.78\% * 25.68\% =$ 7.14%
<p>If you have exclusively used spaces: Add to your regularly used Time-Space Percentage your exclusively used space percentage.</p> <p>It will be: Space percentage (%) of exclusive use area + (regular use space percentage (%) * time percentage (%)).</p> <p>This will weigh your exclusively use areas higher in your Time-Space Percentage. This is your Time-Space Percentage. You'll use this percentage to deduct your business use of home expenses for your in-home child care services.</p>	$11.1\% + (27.78\% * 25.68\%) =$ 18.24%

In this example, you can see that the provider's Time-Space Percentage is 18.24%. This means the provider can claim 18.24% of the majority of their expenses that fall under the business use of the home. These are expenses like rent, mortgage interest, utilities, and repairs. Let's say these items totaled \$10,000 for the year and the provider used

actual expenses, their deduction would be \$1,824 which is significantly more than the simplified deduction amount the system may recommend.

We recommend that you first calculate your Time-Space Percentage using this [worksheet](#) and use it to reference as you walk through the H&R Block system.

Keep track of the hours you work when children are not present by noting the time you spend preparing your space for children, cleaning, doing administrative tasks, responding to families, etc. The sample log below shows how you can track the number of hours you work in your home and shows how you calculated the number which can help you in case of an audit.

Date	Time spent on task	Task description	Total time
9/25/22	5:30-6:00pm	Returning phone calls from prospective families	.5
9/26/22 - 9/30/2022	6:30-8:00am	Food prep and set up play space (reoccurring Monday - Friday)	1.5 * 5 = 7.5
9/28/2022	5:30-6:30pm	Menu planning, filing portfolio entries, prepare billing statements	1
9/29/2022	7:00-8:00pm	Attend online training	1
Total number of hours for week			10

Home Office/Business Use of Home Expenses

H&R Block then asks about specific expenses related to running a business at home (such as real estate tax, trash removal, internet, etc.). They ask you to report expenses for your **Entire Home** and **Office Only**. When adding figures to the **Entire Home** column, be sure to include *all costs* incurred in the upkeep of your *entire home*. H&R Block will then multiply the expenses for the entire home by the Time-Space Percentage that has already been calculated for you.

Home-based providers should keep track of what expenses were included under the **Home Office** section. These expenses, such as utilities and mortgage interest, should not be entered again when those categories reappear later as separate expenses.

Small Taxpayer Safe Harbor Election: While you're in the home office expense view, you will see a check box where H&R Block will ask you if you want to expense maintenance,

repairs, and improvements that were made to your home in 2021. You are eligible to claim maintenance, repairs, and improvements as an expense for this tax year, rather than depreciating it over time if all your repairs add up to less than \$10,000 *and* are less than 2% of the original cost of your home. Your building's unadjusted basis must be \$1 million or less. If you meet these criteria, you can check the box on this form and H&R Block will take care of claiming this deduction for you.

Unallowed expenses and losses from the prior tax year

Next, H&R Block asks you whether you experienced any unallowed expenses and losses from the prior tax year. If you are filing your 2022 taxes, they are referencing the tax year 2021. It is rare for child care business owners to have unallowed expenses or losses, but you can check Line 43 and Line 44 of your prior year's taxes to confirm that there are no values in those boxes.

Qualified Business Income (QBI) Deduction

H&R Block prompts you to take the Qualified Business Income (QBI) deduction. QBI is the net amount of qualified income, deductions, gains, and losses from your child care business. This deduction allows you to deduct up to 20% of your self-employed/small business income from your total taxable income. H&R Block will automatically calculate your QBI deduction for you.

Depreciation & Assets

Depreciation is the practice of deducting a large business cost over time rather than in just one year. This is usually a requirement when you want to deduct certain large purchases (over \$2,500) or an improvement. You can also depreciate your home if you use your home for business. H&R Block offers several prompts for the user to follow to report depreciation. H&R Block prompts you to add certain items at different times through the online self-filing process. The categories for items and the information that is asked for each item are detailed in the rest of this section.

Assets are items of value owned by a company. Business assets can be many things such as vehicles, real estate, computers, and furniture. Assets add value to your business and they may be subject to depreciation. Depreciation is the practice of deducting a large business cost over time (over its useful life) rather than in just one year. Not all assets have to be depreciated. Typically, if you made an improvement or **made any single purchase** of equipment or furniture more than \$2,500 you will need to use depreciation calculations. For example, if you purchased three laptops that totaled \$4,500, that means each laptop cost \$1,500. Each laptop costs less than \$2,500 and each would not be

treated as an asset. If you purchased two computers totaling \$6,000, that means each laptop cost \$3,000 and would be treated as an asset.

Depreciable Property

In the Expenses section, H&R Block will ask if you have any Depreciable Property. In this section, you can add a property that was purchased in the tax year or was purchased in a prior year that isn't finished depreciating (e.g. you have a piece of equipment with a useful life of seven years and has depreciated four years already with three years remaining) Eligible property includes computers and computer software; copiers and office machines; specialty equipment; office furniture; and other property expected to last more than one year. Vehicles should not be depreciated in this section.

First, you will be prompted to:

- Enter a descriptor/name for the property you are depreciating.
- Select from a drop-down menu the type of property you are depreciating: computers and peripheral equipment; computer software; cell phones; office machinery, like calculators and copiers; office furniture and fixtures, like desks; property not listed above used in wholesale or retail trades; other property used in personal and professional services; other property used in construction by contractors; residential rental real estate; nonresidential real estate; residential rental appliances, carpet, and furniture; and other property not listed.
- Date you first used the property for business (which might be different from when you bought it).
- Percentage of business use: This is not the same as your time-space calculation; this is simply the portion of usage this item is used for the business (e.g., exclusive business use is 100%). For example, if you used your personal cell phone for your child care business and you used 100 minutes on your phone that month but 80 of those minutes were for personal phone calls, the percent of business use would be 20% of your cell phone bill that month.

FORM 4562

Tell us about your property.

Description

Laptop computer

Ex: Computer or color printer.

Property type

Computers and peripheral equipment

Date you first used it for business

01/01/2021

This might be different from when you bought it.

Percentage of business use [How do I figure this?](#)

50%

I stopped using this property for Daycare in 2021.

I mostly used this property on an Indian reservation. [What's this?](#)

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You will then follow additional prompts:

FORM 4562

Which of these was true for Laptop computer at the time you started using it for your business?

- This property was new when I bought it for my business.
- This property was used when I bought it for my business.
- I was already using this property for personal use, but started using it in my business (converted to business use).

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FORM 4562

How much did you pay for Laptop computer?

Property's original cost [What do I enter?](#)

\$1,200

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You will then be required to select a depreciation method from a list for your asset. The system will ask which depreciation method you would like to choose based on the asset in question. You are required to select a method; however, in a few screens, you may see that the system will instead treat the claim as 100% bonus depreciation on the asset if it qualifies (it likely does!) and deduct the full amount in the single year instead.

Great news! You qualify for the Section 179 deduction.

You'll be able to claim the maximum Section 179 deduction of \$1,200 for Laptop computer.

Since most people claim the maximum Section 179 deduction to get the full tax benefit in one year, we've gone ahead and claimed it for you, too. If you don't want to claim the maximum amount, please select one of the options below.

I want to claim less than the maximum amount and reduce my deduction. [Why would I do this?](#)

Don't use the Section 179 deduction on my state return. [Why would I choose this?](#)



[Find out how tax reform affected this deduction.](#)

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What depreciation method do you want to use?

We automatically chose the GDS regular method for you. This depreciation method will give you the largest 2021 deduction for Computer.

If you want to choose a different method, these are your options:

GDS regular method (This is most common.)
200% or 150% declining balance, which allows for the quickest write-off [What does this mean?](#)

GDS 150% declining balance method
Allows for a greater deduction in later years [What does this mean?](#)

GDS straight-line method
Basis ÷ by useful life = depreciation deduction (This was common prior to 1981.) [What does this mean?](#)

ADS straight-line method
Basis ÷ by useful life = depreciation deduction

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Which property depreciation convention applies?

- Mid-Quarter Convention
- Use this convention if you placed more than 40% of the property in service in the last three months of the year.
 - It assumes you placed the property in service in the midpoint of the quarter. (Ex: Nov. 15 for the fourth quarter)
- Half-Year Convention
- Use this convention if the mid-quarter convention doesn't apply.
 - It lets you claim 50% of a year's depreciation in the first and last year the asset is in service.
 - You can do this regardless of the date you started using the property in your business.

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Congratulations! Here's your depreciation deduction.

Section 179 deduction	\$0	
2021 depreciation	\$0	
Bonus depreciation	\$600	Explain Amount
Depreciation method used	MACRS	

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Home Improvement Depreciation

After you enter details about your home asset, such as the date of purchase and original cost, the system will depreciate the expense, based on your Time-Space Percentage, and provide you with the deductible depreciation amount for it.

There is a separate category in H&R Block, Assets, where you can depreciate other large purchases that are not subject to your Time-Space Percentage.

Section 179 Home Improvement Deduction

If you own the home you live in and operate the business from, then you might be eligible to depreciate improvements made to your home, even if they were not made directly to your “home office”—meaning your child care program space.

	Entire Home	Office Only
Mortgage interest reported on Form 1098 What qualifies?	\$2,500	
Mortgage interest not reported on Form 1098		
Mortgage insurance premiums	\$400	
Real estate taxes	\$11,000	
Homeowner's insurance	\$600	
Casualty losses		
Repairs and maintenance	\$2,000	
Utilities	\$9,000	
Self-storage fees		
Cleaning costs	\$3,000	
Snow removal	\$2,000	
Pest control		
Trash removal	\$700	
Internet fees	\$700	
Other expenses (Ex: security system)	\$250	

I want to expense improvements. (Maintenance, repairs, and improvements I made to my home for 2021 are less than \$10,000 and less than 2% of the original cost of my home.) [Why would I do this?](#)

You may be curious about what an improvement consists of. An improvement differs from a repair because it is not meant to get something back into working condition; instead, it improves or adds value to the home. Examples of home improvements include

paving a driveway, installing a fence, adding a new roof, improving heating, ventilation, and air conditioning property; installing new plumbing or wiring; putting in a new carpet, and many interior improvements qualify.

If you have assets that cost \$2,500 or less, you have options to treat them as expenses instead of assets and deduct them fully in one year. This is called the **De Minimis Safe Harbor Election**. Taking advantage of the de minimis safe harbor election can substantially reduce your business's income tax burden. If you use this rule, make sure you, or your preparer, includes a statement reading:

"Section 1.263(a)-3(h) De Minimis Safe Harbor Election

Your name _____

Your address _____

EIN or Social Security Number _____

For the year ending December 31, 20__, I am electing the safe harbor election for small taxpayers under Treas. Reg. Section 1.263(a)-3(h) for the following: (list your improvements)."

There are some special rules in place, however, labeled annual election for improvements in H&R Block, that will allow you to deduct improvement costs as expenses rather than depreciating them over multiple years. For building improvements, there is the **Safe Harbor Election for Small Taxpayers** election that allows you to treat the improvement as an expense. Usually, you can do this if your gross receipts (business income) are less than \$10,000,000 and the building has an unadjusted basis of \$1,000,000 (this is the cost before any depreciation that you've taken). The cost of the repair must also be the lesser of \$10,000 or 2% of the unadjusted basis of your building.

Next, H&R Block will ask about any business assets that you have that aren't covered by your elections. For example, large purchases over \$2,500 or improvements over \$10,000.

Your Business Asset Summary will populate when you **Add Property**.

If this applies to you, you will be taken to your Business Asset Summary to add your assets.

You will then need to answer a few questions about your assets, one at a time.

For items that cost more than \$2,500, you will enter details about the item in addition to the date it was placed in service for your business.

If this is the first year the item was placed in service, you can deduct its full value rather than depreciate it over several years. H&R Block will present you with the following options to deduct the asset:

- I'll spread the deduction over several years
- I'll deduct the full value of the item this year (take the Section 179 deduction)
- I'll take a partial Section 179 deduction
- I'll take a partial Section 179 deduction this year and the 100% special depreciation allowance
- I'll take the 100% special depreciation allowance

The method you choose will depend on your overall financial status for the year and how you would like to approach tax planning for the future. This is what H&R Block recommends:

- I'll spread the deduction over several years. **Recommended** if you anticipate having greater income in the future and you want to reduce your taxable income at that time.
- I'll deduct the full value of the item this year (take the Section 179 deduction). **Recommended** if your business is showing a profit. We believe most child care businesses will choose this option.

You may be wondering about the difference between the various elections and depreciation methods. This is not an easy concept but if you've made it this far, keep on going! H&R Block is built with links to explain more about these concepts and the system does the math and checks for you to ensure you are expensing or depreciating correctly.

Section 179 allows taxpayers to deduct the cost of certain tangible property as an expense the year it's placed in service. The property must be used for more than 50% of your business, so not one that is primarily for personal use. Buildings and land don't qualify for Section 179 but building upgrades do. In 2022, you can expense up to \$1.08 million of eligible property. This deduction is also limited by your business's net income for the year – you can't deduct more money than you made. At that point, you can opt to take regular depreciation on the remaining assets or use the remaining of your deduction in the following tax year.

Special depreciation is also known as bonus depreciation. For 2022, this allows you to deduct 100% of the depreciation in the year an asset is placed in service. This rule generally applies to property with 20 years or less useful life (this would not apply to residential or nonresidential real property because they have more than 20 years of useful life). A key difference between this and section 179 is there is no limit on the dollar amount of the deduction, you can deduct 100% of your costs for an asset.

Most child care businesses may benefit from selecting Section 179 depreciation, which allows you to deduct the full costs in one year.

It's then added to your asset summary. You'll repeat this process for each business asset, such as furniture, computers and printers, business vehicles, washers and dryers, ovens and ranges, and land and buildings, that you have.

To learn more about bonus depreciation, view our article [Bonus Depreciation Rule Explained](#).

To learn more about the Section 179 deduction, view our [article The Section 179 Rule: A Powerful Way to Cut Your Taxes](#).

Here is a set of simple depreciation worksheets that can help you organize your expenses and determine whether you are going to depreciate an asset or take the full deduction in one year:

Assets that can be expensed			
Assets are items that have a useful life of more than one year. Typically, assets are subject to depreciation however if they are less than \$2,500 you can treat them as a deductible expense instead. List business assets that cost less than \$2,500.			
Item	Cost	Quantity	Total Expense
Computer	\$2,000	5	\$10,000

Assets subject to Section 179 deduction				
Allowable for tangible personal property (which means office equipment, furniture, vehicles, and most other assets that are not buildings) or improvements to your building (including a home used) used for business 50% or more of the time. These can cost more than \$2,500 per unit. You can use this deduction on up to \$1.08 million in expenses.				
Item	Cost	Quantity	Total Expense	Date placed in service (must be in the same tax year as the deduction)
Computer	\$3,000	5	\$15,000	

Assets subject to bonus depreciation				
Allows you to deduct 100% of certain assets in one year without an upper limit on the total amount you can deduct. To qualify for Bonus Depreciation, the item needs to have a useful life of 20 years or less (so it doesn't apply to your home) and be used for business 50% or more of the time.				
Item	Cost	Quantity	Total Expense	Date placed in service (must be in the same tax year as the deduction)
Computer	\$3,000	5	\$15,000	

Assets subject to straight line (regular) depreciation				
Allows you to deduct a portion of the costs of a business asset each year until you've fully recouped your costs. In this calculation, you take the total cost of the item and divide it by the total number of years that the IRS says is the life of the item. Below are some common useful life values from the IRS:				
Item	Useful Life	Date placed in service	Cost (basis)	Depreciation amount (cost/useful life)
Office furniture, fixtures, and equipment	7 years			
Automobiles	5 years			
Land improvements	15 years			
A house or building used in part or whole for business	39 years			

Ways that you can make your Tax Preparation go smoothly

You've done it! You just entered all the information needed on your child care business and can now complete the rest of the screens to complete your overall return.

Many small business owners can perform their own tax preparation to save money and to ensure their taxes are being done accurately – no one knows your business as you do! The key to hassle-free tax filing is to have proper [recordkeeping](#) and [bookkeeping](#)

throughout the year. Keeping track of all payments you receive and receipts and invoices for your purchases is invaluable and will save you many hours.

When it's time to submit your taxes, submitting electronically is far better than printing and mailing your return. This is because there's a higher degree of accuracy and much quicker.

You may find that you need more time to file or that you have a tax bill and need more time to pay it. If that happens, we suggest that you pay what you can and then request an extension. You will need to put in the request by April 15th but you can receive an extension for up to six months. You will still have to pay additional penalties for not paying on time, but that will be better than ignoring it altogether.

Remember, there is help available! H&R Block offers two options for upgrades: Online Assist, for an additional \$80, and Online Assist + Tax Pro Review, for an additional \$109.99. Both options offer unlimited, on-demand chat or video chat and the ability to share your screen with a tax professional. The option with the greatest support, + Tax Pro Review, promises that H&R Block will match you with a tax professional who will best meet your personalized needs and who will review, sign, and e-file your return after you approve them. The total fee you would pay for using the H&R Block self-prepared e-filing for Sole Proprietors with Online Assist would total \$195. If the Online Assist + Tax Pro Review option was added, the total fee would amount to \$225. H&R Block also offers [Worry-free Audit Support](#) for \$19.99

If you purchase one of these upgraded features, you have access to specialists before, during, and after your filing. You may also be able to receive free business coaching from a child care business expert to answer your business questions, or to receive tax education, if you're located in the following states: [Texas](#), [Virginia](#), [Wisconsin](#), or [Indiana](#).

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