

1. Understand YOUR tax obligations.

Household employers are required to collect and pay employment taxes when the annual wages paid will meet or exceed \$1800 in 2012 (2011 threshold is \$1700). The employer's contribution to the employment taxes is approximately 10% of the employee's gross (before tax deductions) wage. It is comprised primarily of Social Security and Medicare taxes (7.65%) and unemployment taxes.

▶ [Historical Wage Test Values](#)

Good news! [Tax breaks](#) available for dependent care expenses will typically offset the employer taxes for nanny employment.

2. Understand the EMPLOYEE'S tax obligations.

Your household employee's tax obligations will typically reduce the gross wage by 15 - 25%. Your employee will contribute 7.65% (5.65% for 2011 **only**) to Social Security and Medicare taxes - *you* are responsible to collect this tax via payroll deductions and to pay both portions to the IRS. If you fail to collect, *you* remain obligated to pay this tax. Your employee will generally also have Federal (and state if applicable) income tax obligations.

3. Understand available employer tax breaks.

When you employ household staff to provide care to a dependent so you can work, you become eligible for either a ▶ [Dependent Care Account](#) (monies are deducted from your payroll on a pre-tax basis to pay eligible expenses) or a ▶ [Child Care Tax Credit](#). These strategies can reduce your taxes by \$600 - \$2500! You must report and pay the nanny taxes to take advantage of these tax incentives.

4. Understand the laws surrounding employee benefits.

Paid time off is not legally required; however, 2 - 3 weeks total paid time off is typical in the industry and experts agree that offering sick/personal/vacation time helps in employee retention. Many families find that contributing to employee health insurance, mass transit passes for commuting and educational assistance makes their position more attractive to professional nannies and domestic staff. Best of all, qualified payments for health insurance, mass transit passes and educational reimbursement may be tax free, providing tax savings to you *and* your employee.

5. Understand how your employee benefits from being paid legally.

Nanny positions in particular are transitory in nature - the children will always outgrow the need for a full time caregiver. Employees who are paid legally have verifiable income (important for car loans and mortgages), verifiable residence (important for in-state tuition qualification), and will be eligible for unemployment compensation payments between jobs, and eventually Social Security and Medicare payments in their old age.

Families interested in the establishment of a successful long term relationship with their nanny or other household staff need to start with a clear understanding of the financial obligations of both parties.

Misunderstandings between you and your nanny on compensation and the financial terms and conditions of employment can torpedo your relationship.

Kathleen Webb
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[HomeWork Solutions Inc.](#)

Under common law, a worker who performs services for you is your employee if you have the right to control what will be done and how it will be done. It does not matter if the work is performed on a full time or part time basis. It does not matter whether the worker lives with you or not.



6. Understand basic labor laws - protect yourself!

Household employees are covered by the Fair Labor Standards Act. Your household employee is non-exempt, which means s/he is paid hourly, *not* a true salary. Make sure your work agreement reflects this! Your household employee not living in your home is entitled to overtime compensation (equal to 1.5 times her hourly rate) for hours worked over 40 in a week. Your live in employee is entitled to her regular hourly rate for every hour worked in a week. Contemporaneous time tracking is a best practice. ▶ [Workers' Compensation Insurance may be required](#) by your state - check with your insurance agent.

7. Always offer the household worker a GROSS wage, stated in rate per hour.

A gross wage is the employee's earnings before any deductions. This insures that the employee knows her true pay rate, and helps you avoid unintended payroll and tax obligations. The work agreement should specify which taxes you will be deducting from the paycheck, and which the employee may be responsible for (income taxes for example). Be prepared with an approximation of the employee's net wage (take home) as this is an important consideration nannies have when evaluating a position.

▶ [4nannytaxes.com's free tax calculators](#) are available 24/7 free of charge, or simply phone 800-NaniTax and ask for assistance.

8. Don't hesitate to ask for help!

Our trained staff is available weekdays to assist you with a variety of issues, including:

- Calculating alternate payroll scenarios.
- Budgeting your total out of pocket expense.
- Converting a weekly wage into hourly rate terms.
- Asking general questions related to wages, benefits and labor law.

Simply call 800.626.4829 for a free consultation.

9. Understand the "Nanny Tax" compliance process

To be in compliance with the nanny tax laws, you must register with Federal and State taxing authorities to obtain tax ID numbers. You are also obligated to keep accurate and contemporaneous time and wage tracking records. You will typically need to report and remit state taxes quarterly and may make quarterly federal tax payments. Additionally at the end of the year you will need to provide your employee(s) with a Form W-2 and will need to prepare and include a Schedule H with your annual Federal Form 1040.

10. Feel the peace of mind

Nanny tax compliance brings you important peace of mind. Your compliance protects your family against back wage claims from a disgruntled former employee, provides your employee with unemployment benefits when the need arises, and insures that you will not be knowingly submitting a false Federal income tax return! And if all this sounds like it is just "too much!" consider out sourcing some or all of the tax and payroll paperwork. We offer a variety of economical, tax deductible ▶ [service plans](#) - one is sure to fit your needs.

What Clients are Saying...

“I would like to take a moment to express my thanks to HomeWork Solutions for many years of prompt, professional and courteous service. You are a pleasure to work with!”

“Your staff is outstanding and your web services are so user friendly.”

“I can go about my business confident that my nanny's payroll is in good hands.”

“HomeWork Solutions is so easy to work with. Dealing with seniors every day, I know the assurance that required paperwork is completed accurately, reliably and on time for elder care and other domestic employees is invaluable.”

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**Your Agency Name clients
receive a complimentary
account set up – a \$100 value
– when you tell HomeWork
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**Call them for a free
consultation @ 800.626.4829**



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