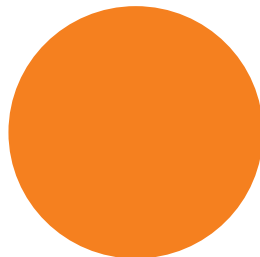
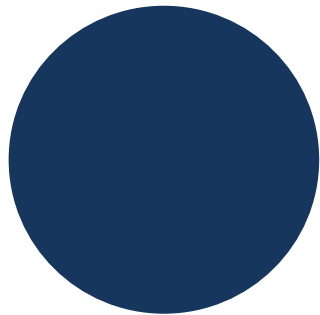




# Nanny Payroll

## Quick Start Guide

Informational booklet for  
household employers



2 Pidgeon Hill Drive #550  
Sterling, VA 20165  
**800.626.4829**



## Nanny (Domestic) Payroll Table of Contents

### Background

Employer and Employee “Nanny Taxes” .....	4
Employee or Independent Contractor? .....	4
Quick Steps: Nanny Tax Compliance Process .....	5
Salary Negotiations & the Work Agreement .....	6
Employee Benefits .....	7
Minimum Wage .....	7

### Compliance: Process

Reporting Requirements .....	8
New Hire Reporting .....	8
Federal ‘Nanny Tax’ Rules .....	8
About Unemployment Taxes .....	9
Withholding Employee Income Taxes .....	10
Mileage Reimbursement .....	10
Expense Reimbursement .....	11
Employee Taxpayer Identification Numbers .....	11
Wage and Tax Statements .....	11

### Tips for Families

Record Keeping .....	12
Important Do’s and Don’ts .....	13
About YOUR Personal Income Taxes .....	14
Reporting: Schedule H Form 1040 .....	14
Tax Savings for YOU .....	14
Common Problems .....	15
Other Questions? .....	16

## Welcome!



**Congratulations!** Your nanny referral agency has provided you this handbook because you have recently hired a household employee. HomeWork Solutions, Inc. is a nationally recognized expert in household employment taxes. We are here to help you address the employment tax obligations you may have.

The IRS defines household employees as nannies, housekeepers, maids, cooks, elder care, household managers, and others employed in domestic service in a private residence. The IRS is very clear that these workers are employees, NOT independent contractors, and that you, the household employer, are ultimately responsible for the reporting and remittance of any household employment taxes that may be due. *The good news is that compliance with the "nanny tax" rules will generally qualify a family for tax breaks for childcare and/or eldercare expenses.*

### How to Use This NaniTax ESP Guide

Our Quick Steps walk you through the process in a simple step-by-step outline. The remainder of our Guide provides you with a more comprehensive examination of employment issues and considerations, federal and state payroll tax laws and forms, tips for record keeping and solutions to common problems.

- **HomeWork Solutions recommends that you review the entire NaniTaxESP Guide before you begin the payroll tax process.** If you have any questions after your review, please call the professionals at 1-800-626-4829. Alternately, many questions are addressed at our website, [www.4nannytaxes.com](http://www.4nannytaxes.com).

## Go Ahead! Simplify!

Nanny Tax Compliance Services  
Nanny Payroll and/or Nanny Tax Preparation  
Nationally Recognized Nanny Tax Experts  
Since 1993.

**4NANNYTAXES.COM**



## Employer and Employee “Nanny Taxes”

IF you pay a household employee [\\$1700 \(2009 - 2011\) or more in a year](#), YOUR employer payroll tax obligations typically total 10 - 11% of gross wages and may include:

- Social Security & Medicare Taxes (7.65% of Gross Wages) Employer Contribution [FICA taxes]
- Federal Unemployment Tax (FUTA) (0.8% of Gross Wages in Most Circumstances)
- State unemployment and disability insurance taxes levied on the employer.
- Advance payment of the earned income credit for eligible employees.

Your household employee (nanny, housekeeper, maid, etc.) contributes to or pays:

- Social Security & Medicare Taxes (7.65% of Gross Wages Collected and Remitted by Employer)
- Federal/State/Local Income Taxes
- Employee Disability/Unemployment Taxes where required.

Compliance with these tax obligations may qualify you for important tax breaks, which often completely offset the employer’s tax expense.

**TIP! The employer is solely responsible for the remittance of the Social Security and Medicare taxes.** Should the employer fail to collect this tax from the employee via periodic payroll deductions, the employer remains responsible to remit or pay the tax to the IRS. The household employee CANNOT remit their share of Social Security and Medicare tax independent of the employer.

## Employee or Independent Contractor?

Many people are confused by the distinction between employees and independent contractors. When you choose in-home childcare, or employ housekeepers and other domestics, you are almost always an employer in the eyes of the Internal Revenue Service.

If you answer YES to all of the following questions, the nanny IS your employee:

- The nanny provided services in your private home -or- another private home as part of a nanny share arrangement.
- You paid the nanny or housekeeper \$1700 or more (2009 - 2011) for services in the year.
- The nanny is 18 years or older.

The IRS states that “if a worker performs services that are subject to your will and control, as to both what must be done and how it must be done, that worker is your employee. It does not matter if you exercise this control as long as you have the legal right to control both the method and result of the services.”<sup>1</sup> Also, if you have the right to fire the worker or provide the place (your home) and the tools (toys, vacuum,

<sup>1</sup> Internal Revenue Service Publication 926, 2010, Page 2.

cleaning supplies, food) necessary to perform the job, you are considered an employer. Job titles of household employees include nanny, babysitter, private nurse, health aide, caretaker, butler, housekeeper, household manager, personal secretary and others.



## Quick Steps: Nanny Tax Compliance Process

- **Verify Employee's Social Security Number:** Typically, SSN verification is performed as part of a pre-employment screening package. Ask your referral agency for a copy. If this was not part of their package, you may register with the Department of Homeland Security's eVerify program and run this check free of charge. We perform this check for enrolled clients for a small administrative fee.
- **Verify Employment Eligibility:** You may legally hire a U.S. citizen, an alien lawfully admitted for permanent residence, or an alien with a valid work permit. You are required to verify your candidate's employment eligibility using Form I-9. Aliens with a valid work permit are eligible for and should have a valid Social Security Number. Retain Form I-9 for 3 years after its signing date or one year after the end of employment, whichever date is later.
- **Document Compensation Agreement:** Discuss wages and taxes with your employee. Make sure you and your employee are in agreement about tax responsibilities and withholdings. Best practice is to document all compensation issues in a formal work agreement. Ask your referral agency for assistance, or view sample work agreements at the [4nannytaxes.com](http://4nannytaxes.com) website. For more information, consult Salary Negotiations on page 4.
- **Obtain Federal Employer Identification Number (EIN):** All US employers must have an EIN for tax and wage reporting. All taxing authorities, state and federal, use your Federal EIN as part of your account identification
- **Register for State Employment Tax Account(s)**, which may include the following:
  - State Unemployment Insurance Account Registration.
  - State & Local Withholding Account Number Registration, if applicable.
- **Explore Tax Credits:** If you plan to claim a tax credit for child/dependent care expenses, the employee should complete Form W-10 Dependent Care Provider's Identification and Certification (available at [4nannytaxes.com](http://4nannytaxes.com)). Keep a copy of this completed form in your files.
- **Calculate Employee Income Tax Withholding:** If you plan to withhold income taxes for your employee, the employee should complete Form W-4 Withholding Allowance (available at [4nannytaxes.com](http://4nannytaxes.com)). If you need more information about withholding taxes, see Salary Negotiations on page 6. HomeWork Solutions maintains a payroll tax calculator at its web site, <http://www.4nannytaxes.com>.
- **Obtain Workers' Compensation and Disability Insurance** (as applicable). Check with your insurance agent regarding your responsibilities. The rules vary from state to state and may be based on the particulars of employment.

- **Tax Reporting:** Complete and return all required federal and state forms in a timely manner. This avoids penalties and unnecessary correspondence.

**Note:** HomeWork Solutions offers complete tax preparation service for household employers, as well as payroll and tax services. For more details, call 1-800-626-4829 or visit the HomeWork Solutions' web site at <http://www.4nannytaxes.com>

## Salary Negotiations & the Work Agreement

It's important to clearly understand which taxes your worker is responsible for and which taxes are your obligations as an employer. (See **Employer and Employee "Nanny Taxes"** page 2.) When negotiating a salary with your employee, be sure to distinguish gross and net wages: **gross wages** are the amount of wages before deductions for employee taxes and other deductions; **net wages** are wages after deductions, or the 'take home' amount of the paycheck.

Nannies and other household workers are to be paid on an hourly basis, and are subject to the provisions of the Fair Labor Standards Act which stipulates minimum wage rules, overtime compensation, and required recordkeeping. This does not mean you cannot agree to a weekly salary guarantee. We strongly advise that your written work agreement clearly stipulate the 'salary' in hourly wage terms, including the number of hours covered. The Hourly Rate Calculator tool at the 4nannytaxes.com website will do the conversion for you.

Your work agreement should specify the frequency of pay days - each Friday, etc. and you should be prepared to pay your employee early if you will not be home on pay day or if you and your family will be out of town on the scheduled pay date.

**Employers of household workers are obligated to remit the *employee's portion* of Social Security and Medicare taxes to the Internal Revenue Service.** Employers may choose to withhold the employee's contribution from the worker's gross pay **or** may elect to pay both the employer and employee contributions from their own funds. If you fail to collect the employee's contribution via payroll deductions, you are 100% responsible to make these payments to the IRS from your own funds. Employers paying their employee's share of payroll taxes must include these taxes as income on the employee's Form W-2 Wage and Tax Statement at the end of the year.

The **[Nanny Tax Calculator](#)** at the 4nannytaxes.com website will itemize your employee's gross wage, withheld taxes, and net wage calculation. This calculator also helps you budget; it illustrates your anticipated employer funded tax obligations in the appropriate categories. This Household Employer's Budget is for planning purposes only and is not intended to calculate specific tax returns.

**TIP!** Many families with full time household employees offer to withhold the employees' income taxes. These are always an employee responsibility. You will have no further obligation if you do not withhold income taxes.

Employers of household workers must make advance payments of the Earned Income Credit (EIC) to eligible employees who request them via Form W-5 – in our practice this occurs rarely. Married employees whose family income is less than \$40,463 (2010), with one or more qualifying children living with them, may be eligible for advance payment of the earned income tax credit, up to \$152 per month.

**TIP!** For help with salary negotiation, use the payroll tax calculator at <https://www.4nannytaxes.com>. Many employers will run multiple scenarios to find the wage that meets their budget and their employee's stated wage requirement.

## Employee Benefits

- **Paid vacation and sick time:** Many employers offer a compensation “package” that includes some allowance for paid time off. Typical annual paid time off for a new household employee is 10 – 15 days total. This is not legally required; rather it makes the compensation package more attractive to competent, experienced household workers. Paid time off is taxed exactly the same way as regular wages.
- **Health insurance:** **Health insurance premiums paid by the employer are not treated as income to the employee.** Therefore, the employer does not pay employment taxes on the benefit, and the nanny does not pay employment or income taxes on the premium. A health insurance benefit often improves employee retention. *Caveat: A non-discrimination test applies. The employer must offer the same health benefit to all employees - easy if the nanny is the only employee, perhaps problematic if there is a weekly housekeeper also employed by the family.*
- Six or more **paid Federal holidays** (New Years, Memorial Day, July 4, Labor Day, Thanksgiving and Christmas always).
- **Annual performance and wage reviews.**
- Your nanny (household employee) will expect to be paid for all days he or she is prepared to work, even if you decide to take your family away for a portion or all of any given week.

## Minimum Wage

Household employees must be paid at least the minimum wage (Federal \$7.25 7/24/2009). You are required to pay a live out household employee an overtime differential (for hours above 40 in a week). Overtime is calculated as one and one-half times the normal hourly rate. Live-in employees must be paid for every hour they work, but are not automatically entitled to the overtime differential under Federal law. Note that many states have minimum wage statutes that are higher than the Federal minimum wage, and several states include live-in domestics in overtime provisions. Stricter state standards will supersede the Federal standards. As a practical matter, nannies almost always command more than minimum wage.

## Reporting Requirements

Household employers are required to report wages and remit payroll taxes periodically. While most taxes and reports are due on a quarterly basis, the details of your employment arrangement and wages paid may cause variances in this quarterly schedule.

When you register with a taxing authority for reporting wages and remitting taxes, you will automatically be mailed blank returns at the appropriate intervals, with due dates clearly indicated. These may be partially prepared with information such as your name, account number and reporting period.

## New Hire Reporting

Federal legislation requires that the names and Social Security Numbers of all newly hired workers be reported to the state within 2-4 weeks of their hire date. See individual state reporting instructions at the HomeWork Solutions' web site at <http://www.4nannytaxes.com>.

**TIP!** HomeWork Solutions offers complete tax preparation services for household employers, as well as payroll and tax services. For more details, call 1-800-626-4829 or visit the HomeWork Solutions web site at <http://www.4nannytaxes.com>

## Federal 'Nanny Tax' Rules

- If you pay \$1700 (2009 - 2011) per year or more to a household employee, you may collect and must remit Social Security and Medicare taxes. This includes full time, part-time and temporary employees. Not included are any wages you pay to your spouse, your child under age 21, your parent or any employee under age 18.
- Your options to remit federal employment taxes include: 1) using Form 1040ES Quarterly Estimated Tax Payments (the most popular option); 2) adjust federal income tax withholding on *your* pay-check to cover anticipated federal payroll tax liability; or 3) make lump sum payments with your personal income tax return. (*Note: Option 3 is not generally available without risk of tax penalties.*)
- Federal employment tax filings must include your Federal Employer Identification Number (FEIN or just EIN).

**TIP!** Many employers are shocked by the size of their annual federal employment tax liability – one full time employee averages an annual federal employment tax liability of \$4000 - \$6000. Most employers utilize Option 1, the 1040ES coupon to make quarterly payments.

- Household employers must report wages paid to household workers on Form 1040 (your Federal Income Tax Return) using Schedule H. The Form 1040 is signed and submitted under penalties of perjury. Household employers who fail to accurately report wages paid to household workers may be subject to criminal, as well as financial, penalties.
- W-2 Tax and Wage Statements are due to employees no later than January 31 following the close of the tax year. Employer submission of form(s) W-2 to the Social Security Administration includes a form W-3 Transmittal Form.

**TIP!** The federal legislation pertaining to the “nanny taxes” does not impact state reporting requirements. Most states have quarterly reporting requirements, required for the accurate administration of unemployment and disability insurance benefits.

## About Unemployment Taxes

Unemployment taxes fund the unemployment compensation system and have both a State and Federal component.

It is illegal to deduct the employer unemployment tax from your employee’s pay. Unemployment taxes are paid solely by the employer.

Most states require a quarterly report of wages paid to each employee. Penalties assessed for failure to report this information on a timely basis range from \$30 to \$100 per report, plus interest assessed on past due amounts. Unemployment taxes are usually due quarterly.

The amount of your state unemployment tax is determined by an **experience rate**. Your experience rate can vary depending on your claims and payment history. Taxable wage limits are set by the state on unemployment contributions. It is important that you maintain records on a year-to-date basis on each employee. You should budget \$300 - \$600 per employee per year for state unemployment taxes. Due to historically high unemployment rates 2008 – 2010, many employers in 2010 found that their state unemployment taxes doubled, or more. Most state funds are near exhaustion, requiring higher collections from current employers.

Some states have additional levies that are collected with the unemployment taxes. These tend to fund disability insurance, job training funds, and health care funds for the unemployed. Some of these taxes are levied on the employer, while others are funded via employee payroll deductions and remitted by the employer.

Federal Unemployment Taxes are included in your personal Form 1040 Schedule H. The nominal Federal Unemployment Tax rate is 6.2% of the first \$7000 in wages paid to each employee. **When you pay state unemployment taxes in a timely fashion you receive a substantial federal unemployment tax credit and pay a reduced rate of 0.8% or no more than \$56 per employee per year.**

Please note: As of November 2010, Indiana, Michigan and South Carolina are in default on Federal loans to their unemployment funds. Consequently, employers in these states will pay higher FUTA (receive a lower credit). It is expected that 12-38 states could be in default on similar loans by 2012.

**TIP!** Unemployment insurance provides replacement income when workers are discharged through no fault of their own. It is not the same as **Worker's Compensation** insurance, which supplements employee lost wages and medical bills for on the job injuries. Many states require that employer's purchase a separate Worker's Compensation Insurance policy.

## Withholding Employee Income Taxes

Household employers are generally not obligated to collect (withhold from pay) the employee's federal and state income taxes. Many employers of full time household workers withhold income taxes from their employees as a courtesy. You may calculate the appropriate amounts free of charge at our web site, <http://www.4nannytaxes.com>.

Employers withholding income taxes should have their employee complete a Form W-4. Keep a copy for your records. Withheld Federal Income Taxes are paid along with the Social Security and Medicare taxes. Withheld state income taxes are generally due quarterly.

## Mileage Reimbursement

A standard mileage reimbursement rate, currently \$0.50 (1/2010), is established by the IRS, and the rate may be used by employers to reimburse employees for the business use of their personal automobiles. This is the reimbursement rate guideline that most nanny employers utilize to determine the mileage reimbursement for a nanny who uses her personal vehicle to transport the children and run job-related errands. Commuting mileage to/from work is not reimbursed. The rate typically adjusts once per year, with announcements made in November for the next year's rate.

## Expense Reimbursement

The employee may have other out of pocket expenses that she incurs in the course of her job. This can be picking up bread and milk at the grocery, cab fare, providing the child with school activity fee money, or entertainment such as movies or a McDonald's lunch. Most families find that a 'petty cash' fund of \$20 - \$50 that is replenished by the family regularly works well. The nanny should be required to provide documentation of all expenses - the grocery receipt or just a log of expenses. Family and nanny should discuss in advance expenses the family is comfortable with (a weekly lunch out may be one) and expenses they wish to approve in advance (\$50 Circus tickets may be an example). If nanny pays for family expenses from her personal funds, she should be promptly reimbursed by the family. Reimbursed expenses are NOT treated as income to the employee.

## Employee Taxpayer Identification Numbers

Employees with a valid right to work in the United States, including aliens with a work visa, will have a Social Security Number. Employees not eligible for Social Security Numbers should apply for an Individual Taxpayer Identification Number (ITIN) using Form W-7. Form W-7 is available at <http://www.4nannytaxes.com>. Tax documents submitted without a SSN or ITIN will be returned as incomplete, and late filing charges may be assessed.

### About Individual Taxpayer Identification Numbers

- The ITIN is a 9-digit number formatted like a SSN, beginning with the number "9".
- The ITIN does not change an individual's immigration status or authorization to work in the US.
- A taxpayer using an ITIN cannot claim the Earned Income Credit.
- ITINs are for tax reporting purposes only and do not entitle the holder to Social Security benefits
- The current IRS disclosure rules do not permit the sharing of confidential taxpayer information with other government agencies, including the Immigration and Customs Enforcement.

## Wage and Tax Statements

As the employer, you must give your employee a Form W-2 Wage and Tax Statement no later than January 31 following the close of the tax year, or within 30 days of the employee's termination, if it is requested. You must file a copy of all Forms W-2, accompanied by a Form W-3 Summary of Wage and Tax Payments, with the Social Security Administration no later than February 28 following the close of the tax year.

**TIP!** The IRS provides Form W-2 to employers upon request. However, many employers purchase these at office supply stores. They are generally available mid-December through early February only. As multiple copies of this form are required, we recommend you purchase the forms with carbonless copies. Alternately you may file and generate these forms online.

**TIP!** Have the employee review the W-2 before it is sent to Social Security to avoid the need for amended returns. Be VERY careful that the name agrees exactly with the name on the employee's Social Security Card.

## Record Keeping

The IRS requires that you maintain all records of employment taxes a minimum of 4 years. This should include the following:

- Keep all letters assigning identification numbers and establishing tax or contribution rates.
- Insure that you state the household employee's wage in [HOURLY WAGE TERMS](#) in a written compensation agreement!
- Keep copies of all Quarterly and Year-End Filings, as well as the actual cancelled checks that remitted the tax.
- Maintain accurate and contemporaneous records in a payroll log, including days and hours worked in the period, gross wages calculated, the taxes that were deducted, if any, and the net payment made. Time tracking must occur contemporaneously to remain compliant with the Fair Labor Standards Act. Keep names, address and social security numbers of all employees.
- Copy social security cards and driver's licenses or work permits, if possible, and maintain in a permanent file in a secure location.
- Keep copies of I-9 form, Form W-4 Income Tax Withholding Certificate and Form W-10 Dependent Care Provider's Identification and Certification, if applicable.

The [HomeWork Solutions' web site](#) maintains many required forms, including Form W-4 and I-9. These forms are easily downloaded and may be useful if you add or replace an employee.

# Important Do's and Don'ts

## Do's

- Insure you have your employee's full name, address and Social Security Number (or ITIN) when you first pay wages.
- Always write your employer identification number, form number, and tax period in the memo section of all tax payment checks.
- Give all employees a Form W-2 by January 31 or within 30 days of termination at the employee's request. Mail W-2s of terminated employees to their last known address. If returned by the post office, maintain with your permanent records in the returned envelope as proof of attempted delivery.
- Pay all of your state unemployment taxes on time.
- Remember to take credit for Form 1040ES Estimated Tax Voucher payments made on your personal form 1040. These payments offset the tax added to your return by Schedule H.
- Respond to taxing authorities in a timely manner.
- Always refer to yourself as a Household Employer to taxing authorities, for example when signing your title.

## Don'ts

- Don't include health insurance you provide your employee in their taxable wages.
- Don't include expense reimbursement or mileage reimbursement you provide your employee in their taxable wages.
- Forget to send a copy of the Form W-2 for every employee, with the accompanying Form W-3, to the Social Security Administration later than February 28.

## About YOUR Personal Income Taxes

There are two issues regarding household employment that may impact your personal Federal income tax return. The first involves the reporting of wages and reconciliation of taxes due as required by the 1994 Nanny Tax law revisions, using Schedule H [Form 1040]. The second involves the question “May I take a tax deduction for the wages and taxes I paid to my household employee?”

## Reporting: Schedule H Form 1040

The IRS developed Schedule H [Form 1040] Household Employment Taxes to calculate and remit federal employment taxes, including Social Security, Medicare, Federal Unemployment Tax, and withheld Federal Income Taxes (if applicable).

Employers using Form 1040ES Quarterly Estimated Tax Deposit Coupons must include a credit for these payments on the Form 1040 to offset the tax added to the return by the Schedule H.

## Tax Savings for YOU

Many household employers are entitled to tax credits on their personal tax returns for childcare expenses. Household employers may also be eligible for tax benefits by utilizing Flexible Spending Accounts. We recommend that you read the discussion below and consult with your personal tax advisor and human resources department to determine the strategy that is most appropriate for your situation. Eligibility for all tax credits is predicated on payment of the “nanny taxes.”

Many companies make Dependent Care Accounts, also known as Cafeteria Plans or Flexible Spending Accounts, available to their employees. You should check with your employer’s Human Resources department to find out what is available to you. These accounts reimburse you for dependent care expenses incurred while you work. You pay these expenses, up to a maximum of \$5,000 per year (2010) with “**pre-tax**” dollars, sheltering these dollars from federal and most state income taxes and reducing your taxable income. There are restrictions on these accounts. Your employer’s Human Resources Department can provide you with details. This is typically the most beneficial option for household employers.

The **Child Care Credit** allows the employer of a nanny or other childcare provider to claim a **tax credit** on their personal federal income taxes. The amount of this credit varies by income and the number of children you have.

## Common Problems

There are several problems that may arise in the course of filing and paying nanny payroll taxes. Here are some of the more common ones we experience and suggestions for resolution.

### You are assigned more than one employer identification number.

Employers may be assigned more than one tax identification number. This can happen when the employer name and/or address differs from taxing authority records (Jane B. Smith should always be Jane B. Smith, not J. Smith, J.B. Smith, Jane Browne-Smith, etc.) or an identification number was not indicated on the return. The taxing authority must be notified promptly of the situation. It is important that tax payments be transferred to one account to prevent penalties and interest for non-filing.

### The unemployment rate seems too high.

New household employers pay unemployment contributions at rates between 1.5% and 4.5%. These rates are established by your state. Occasionally, a new employer will receive a rate above 5%. We recommend that you contact your state unemployment office as indicated in your rate assignment notification to request an explanation. Generally, the state did not understand that you employ a household employee in your home and therefore assigned you the highest permissible rate as an unclassified employer.

If you are an employer who has had serious "back tax" issues, you are habitually late in your tax payments, or you have failed to respond to the taxing authority on a variety of issues, you should expect that part of your penalty, in addition to any late filing penalties, will be the assignment of a very high (5-10%) unemployment rate for a year or more. These rates are very difficult, if not impossible, to have adjusted downward as they are generally mandated in state law. Unemployment benefits claims by discharged employees may also increase an employer's unemployment tax rate in following years. *Employees many file (and do!) for unemployment benefits even if you did not file and pay the taxes; this is the most common way families are caught when not paying the "nanny taxes."*

### IRS sends you Forms 940, 941, or 943

These forms apply to commercial and farm employment, NOT household employment. Receipt of these forms typically indicates that the IRS was not properly notified in your EIN application that you are a household employer. Do NOT use these forms; instead report household wage and tax calculations of IRS Form 1040 Schedule H, your annual income tax return.

### IRS sends you 8109 Tax Deposit Coupons

Occasionally household employers receive a package of Form 8109 tax deposit coupons from the IRS. These come with a yellow cover and are generally received shortly after the assignment of an EIN. **Do not** use these coupons! Household employers remit federal taxes using Form 1040ES. Receipt of Form 8109 coupons typically indicates that the IRS was not properly notified in your EIN application that you are a household employer.

### **You receive information from the Social Security Administration that your records do not agree with IRS records.**

This 5-7 page notification usually means that the SSA did not receive or process your forms W-2/W-3 for the indicated tax year. Returning copies of the appropriate original forms easily clears this up. Be very careful to insure that your EIN is provided where requested.

### **You received a notice from the IRS that your Federal Unemployment Tax credit (FUTA) has been disallowed and you owe hundreds in additional taxes.**

The Federal Unemployment Tax offers a substantial credit for payments made on a timely basis into your state unemployment fund. Occasionally, taxpayers may receive a notification months/years after filing that the IRS disallowed the state credit and assessed you the higher rate with penalties and interest. This is easily corrected provided you actually paid the state taxes. First, call your state unemployment office and ask them to mail you a "940 Certification" of contributions made to your account for the year in question. Next, write a brief letter to the IRS disputing the disallowance and include a copy of the state certification. This is usually the end of it. Avoid this problem by making sure the state has notification of your EIN and that you correctly record your state unemployment account number on your Schedule H.

### **Your employee doesn't have a Social Security Number.**

Non-documented workers are ineligible for a Social Security Number. It is possible to report wages paid to these workers and for the worker to file his/her income taxes. In fact, both you as the employer and the non-documented worker are legally required to do so. Workers ineligible for a SSN must obtain an Individual Identification Number (ITIN – see the discussion on page 9.) Should workers later receive a Social Security Number, they should take their earlier Forms W-2 to the Social Security Administration office and request that the wages be credited to their account.

## **Other Questions?**

This pamphlet provides generalized information intended to help you understand your payroll tax obligations and reporting requirements. It is not intended as specific legal or tax advice. Your situation may differ from the norm, so you should consult with your lawyer or accountant if you have particular questions. Also, while the information contained herein is believed to be true and accurate as of the date of publication, the relevant regulation or laws may change, so make sure you are using up-to-date forms, tax rates and information. This pamphlet is updated from time to time – a current copy is available for download from <http://www.4nannytaxes.com/forms/ESP.pdf>

