

Employment Taxes for Domestic Employers

Prepared for

The World Bank / IMF

By



Presentation Audience

- Most information presented applies to BOTH employers of US domestics and employers of foreign (G5 Visa) domestics.
- Information specific to G5 employment presented at the end.
- There will be ample time for Q & A.

Best Practices

- Understand mechanics of US payroll taxes and deductions.
- Agree in writing to terms of employment with the domestic.
- Good Recordkeeping:
 - Forms W-4 and I-9
 - Timecards/Payroll Calculations
 - Copies of tax returns



Typical DC Area Employment Taxes

Employee pays:

- 7.65% deducted for Social Security and Medicare Taxes
- Federal Income Taxes
- MD, DC or VA Income Taxes

Employer pays:

- 7.65% matching Social Security and Medicare Taxes
- State Unemployment Taxes - ~\$300/year.
- Federal Unemployment Taxes - ~\$56/year

Typical DC Area Employment Taxes

Employee pays:

Employee Gross Wages:	\$650.00
<i>Gross subject to IT:</i>	\$650.00
Social Security:	(\$40.30)
Medicare:	(\$9.43)
Federal Withholding (2009):	(\$46.24)
DC State Tax :	(\$20.78)
Employee Net Pay:	\$533.25

Employer pays:

Employer Obligations:	
Employee Gross Wages:	\$650.00
Social Security Tax (Employer):	\$40.30
Medicare Tax (Employer):	\$9.43
Unemployment Taxes: <i>Assumes \$350 expense per employee per year. Your rates may vary.</i>	\$13.46
Estimated Expense per Pay Period:	\$713.19

The Mechanics of US Employment Taxes



- **Employer deducts (collects):**
 - 7.65% employee Social Security and Medicare Taxes
 - Federal income taxes (optional)
 - State income taxes (optional)
- **Employer pays:**
 - 7.65% matching Social Security and Medicare Taxes
 - State & Federal Unemployment Tax

Employer bears obligation for remittance of *most* taxes.

Federal Employment Taxes

Employer Responsibility

- **Social Security & Medicare Taxes** total **15.3%** of gross payroll.
 - **May** deduct half (**7.65%**) from employee paycheck. If you don't deduct from the employee's pay, you remain obligated to pay this amount to the IRS.
- **Federal Unemployment Tax (FUTA)** paid **entirely** by employer – generally no more than **\$56** per employee.
- Taxes above reconciled annually on Employer's **Federal Form 1040 Schedule H, Household Employment Taxes**.

State Unemployment Taxes

Employer Responsibility

- Unemployment Insurance – Paid entirely by employer.
~\$300/year/employee
- MD & VA: Require quarterly reporting and remittance to jurisdiction where work is performed.
- DC: allows annual remittance of unemployment taxes *if properly registered.*

Income Taxes

The Domestic's Responsibility

- **BOTH** Federal and State obligations.
- Best Practice: Employer deducts from pay check (collect).
- Employer ***not*** legally obligated to deduct.
 - ***If not deducted by employer***, employee must make remittance.
- **IMPORTANT:** G-5 domestics must file income tax returns as a condition of the visa.

Tax Estimates

Assume employer collects (deducts) employee income tax and Social Security and Medicare taxes.



- EMPLOYER: ~10 - 12% in addition to gross payroll.
- EMPLOYEE: 10 – 25 % deducted from gross payroll, depending on marital status and annual wage of employee.

Written Work Agreement: A Best Practice!



- Days/Hours of Employment.
- Compensation stated in gross wage terms, including pay frequency.
- Treatment of overtime, sick time, vacation time.
- Clear statement of duties and responsibilities.
- It's the law in Montgomery County MD.

Written Work Agreement

- **US Domestic vs. G 5**



- **Minimum wage**

- VA \$6.55 /hr, \$7.55 DC, MD \$6.55
but generally paid much more.
Metro average \$450 - \$800 wk.
G5 \$8.41 /hr (23-Sept-2008).

- **Meals and Lodging**

- may **not** be deducted from
employee wage.

Written Work Agreement

- Compensation wording has to be VERY specific and compliant with the Fair Labor Standards Act (FLSA).

Employee Bi-Weekly compensation of **\$850.00** gross, based on an gross hourly wage of **\$10.63** and a 40 hour work week. Employee guaranteed minimum Bi-Weekly compensation of **\$850.00** gross. Weekly hours worked in excess of 40 per week to be compensated at **\$15.94** gross per hour.

Federal Obligation

- Employer Filings:
 - **Form SS-4** at start of employment to obtain a Federal Employer Identification Number.
 - **Form W-2** annually to employee, no later than January 31.
 - **Forms W-3 and W-2** annually with the Social Security Administration, no later than February 28.
 - **Form 1040 Schedule H** to the IRS annually, no later than April 15th.

What You Need to Start

- EMPLOYER: must have either Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN) prior to enrollment as an employer.
- EMPLOYER: Must register and obtain tax identification numbers for employment taxes with the IRS and state tax collection agencies.
- THE DOMESTIC: must have either Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN).

Employer's State Obligations

- **REGISTRATION** with appropriate jurisdiction for Employment Account(s) set-up.
- **NEW HIRE REPORTING** to appropriate agency, generally within 20 days of employment.
- **PREPARE/REPORT TAX RETURNS** Must report payroll information **quarterly** in MD and VA. DC reports annually *if properly registered*.

State Obligations

- **Worker's Compensation Insurance**

- MD and DC employers must obtain an insurance policy directly from an insurance agent or the state insurance fund. This is *in addition* to Unemployment Insurance and is not part of your employment tax filings.
- NOT REQUIRED IN VIRGINIA.

Employee Compensation

- US Domestic workers are covered by US Minimum Wage rules, whether live-in or live-out.
- Domestic workers must be paid for all hours *on duty*, even if children are napping or at school.
- Employer is required to keep accurate contemporaneous payroll records.
- Sample time sheets for G5 employers available at 4nannytaxes.com.

Employee Compensation

- Employer retains forms **W-4** “Employee’s Withholding Allowance Certificate” and **I-9** “Employment Eligibility Verification”.
- Employer **may** deduct employee taxes from his/her paycheck.
 - 7.65 % for Social Security & Medicare.
 - Federal Income Taxes.
 - State Income Taxes.
 - * Use **W-4** to determine income tax withholding rate.
- Employer **may not** deduct any cost of unemployment insurance.

Employee Compensation

Frequency of payroll

- Weekly (1x every week)
- Bi-Weekly (1x every alternate week – 26x per year)
- Semi-monthly (2x per month – 24x per year)
- Once Monthly payroll is not permitted in MD, DC or VA.

**G5 Domestics MUST be paid either Weekly or Bi-weekly
to avoid violation of G4 Code of Conduct.**

US Domestic's' Expectations

- Generally require a **set weekly pay rate** determined on the basis of agreed hours and hourly rate.
- Expect to be paid for all agreed hours, even if family doesn't need them for all or part of a week.
- Expect additional wages for additional hours outside the employment contract.
- No deductions for room and board; live in domestics paid only slightly less than live out domestics.

US Domestic's Expectations (Cont.)

- Live-in domestics: MUST be paid for every hour of work. MD requires overtime (1.5 x hourly rate) for hours over 40 per week.
- Live-out domestics: **Hours in excess of 40 per week** are paid overtime (1.5 x hourly rate); must be paid for all hours worked.
- Benefits, vacation and sick pay by negotiation as agreed in Work Agreement.

Employee Paycheck

- Determine **GROSS** taxable payroll.
- Calculate and deduct taxes.
- Employee is paid the **NET** amount.
- G5 employees **must** be paid via pay check or electronic fund transfer to his/her bank account – NOT in cash.

Employee Gross Wages:	\$650.00
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- 4nannytaxes.com/calculator/
- **Calculator tools at HomeWork Solutions' web site helps you compute employee tax deductions and estimate your employment tax obligations.**
- **Updated for 2009 tax rates.**
- **Pay Stubs documenting gross wages and any deductions may be printed.**

When are Employment Taxes Due?



State Unemployment Taxes
MD & VA: **Every Calendar Quarter**
DC: **Annually**

State Income Taxes may be on a monthly, quarterly (most common) or annual payment cycle depending on circumstances.

When are Employment Taxes Due? (Cont.)

- **Federal Taxes**

- Social Security & Medicare
- Withheld (deducted) employee income taxes
- Federal Unemployment Tax

Due no later than April 15 for prior calendar year.

- *If* you must file US Form 1040, you may need to make quarterly remittance of employment taxes. This particularly applies to NON-G-4 employers with full time staff.

When are Employment Taxes Due? (Cont.)



US employers and G4 employers with US income tax obligations please note:

Household employment taxes may trigger penalties if not paid on a quarterly basis!

Forms & Help



- **Form I-9** Employment Eligibility Verification
- **Form W-4** Employee's Withholding Allowance Certificate
- **Form W-7** Application for IRS Individual Taxpayer Identification Number
- **Form SS-5** Application for Social Security Card
- **Schedule H** Instructions for Household Employers
- **Publication 926** Household Employers Tax Guide
- **Form 1040ES** - Estimated Tax Payment Coupons

Forms require Free Adobe Acrobat Reader.

Special Considerations

G 4 and G 5 Visa Holders

- The employers, who have **G-4 Visas**, *generally* are **not required** to pay US income taxes on their own wages.
- The domestic, working on a **G-5 Visa**, **is required** to pay any Federal and/or State income taxes.
- The G-4 **is required** to report and remit all US *employment* taxes.

Special Considerations G 4 and G 5 Visa Holders

- The G-4 Employer *MUST* obtain *EITHER*

Social Security Number

[from the Social Security Administration]

or

Individual Taxpayer Identification Number [from the Internal Revenue Service] before they can register with the US government as an employer.

Special Considerations

G 4 and G 5 Visa Holders



- G-5 domestics working in the Washington Metropolitan Region **must** be paid no less than the greater of the minimum wage or the prevailing hourly rate as established by the US State Department, currently \$8.41 per hour (9/23/2008).
- **This is the compulsory minimum wage for the G-5 domestic – domestics are often paid more.**

Special Considerations G 4 and G 5 Visa Holders

- G-5 domestics must be employed on a **full time basis**. (minimum of 35 hours/week)
- G-5 domestic may *only* work for the employer who sponsored his/her Visa.
- Expectation is G-5 is paid for every week present in the US and able to work.



Additional Obligations G4

- Must maintain records as stipulated by the G4 Code of Conduct Article V.
- Employment contract mandatory.
- Sample time and payroll tracking forms available from HomeWork Solutions' website.

Special Considerations G 4 and G 5 Visa Holders



- The G-5 domestic must be paid on either a **weekly** or **biweekly** (26x per year) basis.
- Payment must be either via **check** or **direct deposit** to a bank account owned by the G-5 domestic.
- Employee *may not* be paid in cash.

G4 Help

<http://www.4nannytaxes.com/info/g5employment.cfm>



- Tax related information on the HomeWork Solutions Website.
 - Wage rules summaries.
 - Sample Time and Payroll Tracking Forms.
- World Bank Intranet has Code of Conduct and related information available.



- Specializing in Household Employment Taxes since 1993.
- 1-800-NaniTax
800-626-4829

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