

FAQ about domestic workers in my home

1.) I have a domestic (nanny, elder care giver, housekeeper) working in my home. What taxes do I need to pay?

- In general, the Internal Revenue Service requires payroll tax filings by a domestic employer who pays a household employee more than \$1500* cash wages in a calendar year. These payroll tax obligations may include:
 - Social Security & Medicare Taxes (7.65% of Gross Wages) [FICA taxes]**
 - Federal Unemployment Tax (FUTA) (0.8% of Gross Wages or less in Most Circumstances)
- State unemployment and disability insurance taxes levied on the employer.
- Advance payment of the earned income credit for eligible employees.

* The \$1500 threshold applies to 2006 and 2007 household payroll! This will increase to \$1600 in 2008. Wage test is \$1400 for years 2003 - 2005, \$1300 for 2001 & 2002, \$1200 for 2000, \$1100 for 1998 & 1999, years 1995 - 1997 were \$1000

** The FICA taxes are shared between employer and employee. Each party contributes 7.65%. If the family fails to collect this tax via payroll deductions from the employee, the family will be liable for both the employer and employee portions of the tax or 15.3% of gross wages.

2.) How are the nanny's (employee's) payroll taxes paid?

- The household employer is required to collect the employee's (nanny, housekeeper, etc.) contribution to Social Security and Medicare taxes. Should you fail to collect, you remain responsible to remit these taxes for the employee.
- Deducting federal income taxes and most state income taxes is optional. If income taxes are not withheld by the employer, then the employee is required to make periodic payments of any amounts due.
- Most household employers with a full time staff member offer to deduct income taxes for the employee from his/her payroll. This is a convenience to the nanny or other household staff, relieving them from the need to make quarterly estimated tax payments on their own. Families with occasional or part time staff, such as a weekly housekeeper, in general do not deduct income taxes from the employee's payroll.

3.) I have heard that I can get a personal tax break for child care? Does this apply when I hire a nanny?

- There are two popular strategies that families use to minimize their personal income taxes. Many families can utilize a flexible spending plan (cafeteria plan) offered by their employer for child and dependent care expenses. Your human resources department can provide you with plan details. Another strategy is the Child Care Credit available to many parents. This credit can directly reduce the parent's income taxes by between \$600-\$1,440 a year.
- To be eligible for any childcare tax breaks, the family has to report the wages paid to the nanny and remit the necessary employment taxes. Many families find that the tax break offsets the cost of the payroll taxes for the nanny, thus easing the financial burden of tax compliance.

Copied from: <http://www.4nannytaxes.com/faq/index.cfm>

13117 Eastpoint Park Blvd.
Ste. H
Louisville, KY
(502) 895-9998
(502) 895-6035 fax
After Hours: (502) 541.6441

Owners Kevin and Laura Hall
info@FamilyTreeCareServices.com



tax and payroll assistance websites

<http://www.4nannytaxes.com> *

<http://www.nannytaxprep.com>

<http://www.breelove-online.com>

*We have recently partnered with Home Work Solutions at www.4nannytaxes.com , and you can now receive their NaniTax ESP Expert Start-Up service for free! You simply have to enter the ID: TFT9998 in the field indicated on their website to receive this bonus. This will give you access to telephone consultations with the experts on household payroll, payroll analysis, registration for your Federal Employer Identification Number, and much more! To get started simply go to www.4nannytaxes.com/esp and enter our ID # TFT9998. If you have any questions you can give them a call at 1(800)626-4829(NaniTax) or you can call The Family Tree at (502)895-9998.