

Home and Domestic Service Workers

Dear Client:

Your family may need outside assistance to provide care for your children or elderly parents; you may hire a landscaper or a housekeeper. There are certain rules you must follow when compensating your domestic workers. We can assist you in complying with the tax payment and reporting regulations with respect to your workers.

To begin with, it is essential to determine whether your worker is an employee or an independent contractor. If you are considered an employer, you are required to withhold and contribute a matching amount of Social Security, Medicare and federal unemployment taxes from your domestic worker's income ("nanny tax").

The worker is your employee if you can control what work is done and how it is done. It does not matter whether the work is full time or part time or whether you pay the worker on an hourly, daily, or weekly basis, or by the job. Household employees include, but are not limited to, babysitters, caretakers, house cleaning workers, domestic workers, drivers, health aides, housekeepers, maids, nannies, private nurses, and yard workers.

If you have workers who use their own tools and equipment, or work at their own place, they are most likely independent contractors (e.g. repairmen, plumbers, contractors).

Proper classification of your workers is very important. Failing to withhold income and employment taxes from their wages can result in severe penalties and interest, in addition to the back taxes owed.

Social Security and Medicare tax (FICA)

If you have household workers, you are required to withhold and pay FICA taxes if cash wages paid in 2014 total \$1,900 or more. Social security and Medicare tax doesn't apply to household workers who are under 18 if domestic work is not their principal occupation. If you pay the employee less than \$1,900 in cash wages in 2014, neither you nor your employee will owe social security or Medicare tax on those wages.

You are required to file a Form W-2 for every domestic employee whose wages are subject to the social security tax, and you will need to get an Employer Identification Number for yourself. You will also be liable for state tax obligations, such as state unemployment taxes.

You are responsible for payment of your employee's share of the social security and Medicare taxes

as well as your own. You can either withhold your employee's share from the employee's wages or pay it from your own funds. If you pay the employee's share of Social Security taxes in addition to your share rather than deducting it from employee's pay, the employee will be considered to have additional income for income tax purposes.

Federal unemployment tax (FUTA)

You must pay the FUTA tax for any household employee who was paid \$1,000 or more in a calendar quarter. The effective FUTA tax rate varies state-by-state. We can give you all the details.

Federal and state income tax withholding

You are not required, but your household employee can ask you to withhold federal and/or state income tax.

Payroll tax paperwork

The federal income tax, FICA and FUTA you owe for any household employee is computed on Schedule H of your individual income tax return, Form 1040, and included in your tax liability. Not reporting and paying the "nanny tax" is income tax evasion.

State payroll taxes are generally filed and remitted on a quarterly basis.

Household Employer's Checklist

You may need to do the following things when you have a household employee.

- Find out if the person can legally work in the United States.
- When you pay your household employee:
 - ✓ Withhold social security and medicare taxes.
 - ✓ Withhold federal income tax (and state tax, if applicable).
 - ✓ Decide how you will make tax payments.
 - ✓ Keep records
- By February 2, 2015:
 - ✓ Get an employer identification number (EIN).
 - ✓ Give your employee Copies B, C, and 2 of Form W-2, Wage and Tax Statement.
- By March 2, 2015: Send Copy A of Form W-2 to the Social Security Administration.
- By April 15, 2015: File Schedule H (Form 1040), Household Employment Taxes, with your 2014 federal income tax return.
- Determine if a worker's compensation policy should be obtained. You might be able to add this to your existing homeowners insurance policy.

The payroll tax compliance burdens can be quite cumbersome and complex for many taxpayers. Make sure to discuss the worker with your tax preparer either during your year-end planning or tax return preparation meeting. You may be able to deduct the wages paid, such as if there is a medical purpose or if the worker is watching your children while you work. If you need assistance in this area or have questions regarding your household employee, please contact our office to discuss.

