



update

Household Employees & Your Taxes

Payroll Journal:

You should record in a journal each payday the wages and withholding of household employees. Set up a separate record for each employee with room for the following information:

- Payment date
- Check number
- Gross wages (before withholding)
- Social security tax withheld
- Medicare tax withheld
- Federal withholding, if any
- State withholding amounts (establish a column for each separate kind of tax withheld)

For computer users, an inexpensive payroll program may simplify the recordkeeping job.

Keep employment tax records for at least four years after the later of: the due date of the return on which you report the taxes, or the date you pay the taxes.

If You Have Other Employees

If, in addition to your household employees, you have employees in a sole proprietorship, you can choose whether to pay the employment taxes of your household workers with your personal tax return or along with your business payroll returns. If you choose the latter option, you file W-2s for you household employees along with those of all your business employees.

Have You Forgotten Anything?

Here's a quick checklist of issues you should make sure you have considered when you hire and pay household employees:

- Legality of worker's employment in the United States
- Applicability of state employment taxes and state return filing requirements
- Applicability of withholding social security and Medicare taxes
- Income tax withholding agreements with employees
- Recordkeeping system
- Employer identification number application
- W-2 filing with employees and Social Security Administration
- Return filing and payment deadlines

Are the Payroll Taxes You Pay Deductible?

In most cases, the payroll taxes you pay in connection with your household workers' wages are not deductible on your individual tax return. The IRS considers these taxes, and the wages on which they are based, to be personal, nondeductible expenses. However, there are a couple of circumstances when you may be eligible for a tax benefit for the payroll taxes you pay:

• **Child Care Credit** – If you are eligible to claim a Child or Dependent Care Credit based on wages you pay a household employee who cares for your child, other dependent, or spouse, the payroll taxes you pay on the wages are counted as part of your eligible expenses when figuring the credit.

• **Medical Care Providers** – The wages and associated payroll taxes you pay to a household worker who provides nursing services for you, your spouse, or your dependent are medical expenses that may be deductible on your return if you itemize your deductions. (Note that the same expense can't be used both as a medical deduction and for the Dependent Care Credit.)

In these two situations, the payroll taxes that you include are the FUTA tax, state unemployment tax, and your portion of the Social Security and Medicare taxes that you have actually paid during your tax year. For example, if you paid \$56 FUTA tax in January 2004 for medically deductible wages that you paid to a nurse in 2003, you would include \$56 as part of your medical expenses on your 2004 return. (The wages paid in 2003 are deductible on your 2003 return.) Do not include the Social Security and Medicare taxes, federal and state income taxes, or other state or local taxes you've withheld from the employee's wages, since these amounts are already part of the gross wages for which you are claiming the credit or deduction.

The purpose of this pamphlet is to provide current information on tax, financial, and business developments. It suggests general tax planning ideas that may be appropriate in certain situations. The information and opinions are generalizations and may not apply to all taxpayers; it is important that you seek appropriate advice before implementing any of the ideas suggested.

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Employment Tax Responsibilities for Employers of Household Workers

Household employees are workers you hire for “domestic services,” i.e., those services performed in and about your home. Duties of cooks, butlers, housekeepers, governesses, maids, valets, babysitters, caretakers, gardeners, janitors, or personal chauffeurs all can qualify as “domestic services.”

Not everyone you hire for work at your home is considered a household employee, though. For example, a self-employed gardener may take care of your lawn and several others in your neighborhood, providing all his own tools and job assistants and setting his own work schedule. That gardener probably won't be considered your household employee because he is running an independent operation over which you have no “say-so.”

You see, a worker at your home becomes an employee when you control what work that person is to do AND how and when the work is to be done. If you qualify as a household employer, you may have to pay certain federal payroll taxes, including social security and Medicare taxes and unemployment taxes. You withhold some of these taxes from your employee's wages; others you must pay from your own funds. (Some states require certain taxes too, so be sure to check with the state employment department in your area.)

Taxes You Withhold from Wages

Social Security and Medicare Taxes:

If you pay cash wages in excess of a specified threshold amount during the year to a given employee, you must withhold social security and Medicare taxes from the employee's wages. This threshold amount (\$1,400 in 2003) will vary from year to year and applies to each separate household employee you hire.

Example: This year, Jane hired Louise, a housekeeper, and Rose, a babysitter. She withheld social security and Medicare taxes from their wages. Over the course of the entire year, however, she paid Louise only \$500 and Rose \$800. Since neither worker's yearly wage equaled the threshold amount, Jane owes no social security or Medicare tax for them. That being the case, she must repay to the workers the taxes she already had withheld from their wages.

Federal Income Tax:

Household employees may also ask you to withhold income tax from their wages; you aren't required to agree to the request. If you choose to withhold, however, you must collect the income tax from the employee's wages (the IRS publishes tables to let you know how much to withhold) and you pay the amount withheld to the government.

Additional Taxes You Must Pay

Employer's Share of Social Security and Medicare Taxes:

As an employer, you must match the amount of social security and Medicare tax you withhold from your employee's wages.

For instance, if you withheld \$50 in social security from your housekeeper's wages, you would be required to pay to the government \$100 (the \$50 withheld from your employee, plus another \$50 from your own funds).

Federal Unemployment Tax (FUTA):

You are also responsible for FUTA taxes if you paid a total of \$1,000 or more in household employee wages during any calendar quarter of the current year or the previous year. FUTA tax isn't a withholding tax but is paid by you alone on behalf of your employees. (Certain states also assess unemployment taxes – check with the appropriate agency in your area.)

Paying the Tax

You report and pay the required payroll taxes for your household employees along with your regular individual income tax return. Schedule H, Household Employment Taxes, is used to figure the amount of the tax that you owe.

Reporting Wages to Employees

You need to give your household employees Form W-2, Wage and Tax Statement, to report wages and tax withholding for the year. The W-2 is due to the employee by Jan. 31 of the year following the year in which you paid the wages. You must also file a copy of the W-2 with the Social Security Administration (usually by the end of February).

To accurately prepare W-2s, you need certain information from your employee, including his/her name, address, and social security number. So that you have all the necessary information available for timely filing, you may want to have your workers fill out Form W-9, Request for Taxpayer Identification Number and Certification, when you hire them. That way you will have data on file to complete W-2s when the time comes.

Other Paperwork Chores

Form SS-4:

If you have household employees, you will need to obtain an employer identification number for yourself. This number is not the same as your Social Security Number. You get the number by filling out and mailing Form SS-4, Application for Employer Identification Number, to the IRS (it's also possible to have the number assigned by telephone – the SS-4 instructions explain how to do this).

Employee Form W-4:

If you agree to withhold income tax for an employee, ask him/her to complete Form W-4, Employee's Withholding Allowance Certificate. The information on this form will help you determine the correct amount of income tax to withhold.