

10 Tips: All About Nanny Taxes!

Families interested in the establishment of a successful long term relationship with their nanny need to start with a clear understanding of the financial obligations of both parties.

www.4nannytaxes.com/

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1. Understand YOUR tax obligations.

Household employers are required to collect and pay employment taxes when the annual wages paid to an individual will meet or exceed \$1600 (2008). The employer's contribution to the employment taxes is approximately 10% of the employee's gross (before tax deductions) wage. It is comprised primarily by Social Security & Medicare taxes (7.65%) and unemployment taxes.

Good News: Tax breaks available for dependent care expenses will typically offset the employer taxes.

2. Understand the NANNY'S tax obligations.

Your nanny's tax obligations will typically reduce her gross wage by 15 - 20%. Your nanny will contribute 7.65% to Social Security & Medicare taxes - *you* are responsible to collect this tax via payroll deductions and to pay both portions to the IRS. If you fail to collect, *you* remain obligated to pay this tax. Your nanny will generally also have Federal (and state if applicable) income tax obligations.

3. Understand available employer tax breaks.

When you employ household staff to provide care for your dependent so you can work, you may become eligible for either a Dependent Care Account (monies are deducted from your payroll on a pre-tax basis to pay eligible expenses) or a Child Care Tax Credit. These strategies can reduce your taxes by \$600 - \$2500! You must report and pay the nanny taxes to take advantage of these tax incentives.

4. Understand the laws surrounding benefits.

Paid time off is not legally required; however 2 - 3 weeks total paid time off is typical in the industry and experts agree that offering sick/personal/vacation time helps in employee retention. Many families find that contributions to employee health insurance, mass transit passes for commuting, and/or educational benefits make their position more attractive to professional nannies. Best of all, qualified payments for health insurance, mass transit passes, and education reimbursement may be tax free, providing tax savings to you and your employee.

5. Your nanny benefits from being paid legally.

Nanny positions in particular are transitory in nature - children will always outgrow the need for a full time caregiver. Nannies who are paid legally have verifiable income (important for car loans and mortgages) and verifiable residence (important for in-state tuition qualification). They will be eligible for unemployment compensation payments between jobs, and eventually Social Security and Medicare benefits in their old age. Nannies with a dependent child under age 19 may also qualify for the Earned Income Tax Credit, a refundable credit that significantly reduces, and sometimes eliminates, their Federal income tax obligation.

6. Understand basic labor laws - protect yourself!

Household employees are covered by the Fair Labor Standards Act. Your household employee is non-exempt, which means s/he is paid hourly, *not* a salary. Make sure your work agreement reflects this! Your household employee not living in your home is entitled to overtime compensation (equal to 1.5 times their hourly rate) for hours worked over 40 in a week. Your live in employee is entitled to her regular hourly rate for every hour worked in a week. Contemporaneous time tracking is a best practice. Obtain workers' compensation insurance if required.

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Testimonials

"Your service is incredibly reliable and simple and I always try to refer you when I can."

James I., Alexandria VA

"I just wanted to take a moment to compliment your company on what a great job everyone there does. I am a huge advocate of serving customers and I think you guys CONSISTENTLY deliver in this area."

Monta F., Flower Mound TX

"Love the service, I tell EVERYONE!"

Ira R., Los Angeles, CA

"Thank you for your services over the past years. I have been very impressed by the professionalism, responsiveness and quality of the people I have dealt with and would not hesitate to recommend your services."

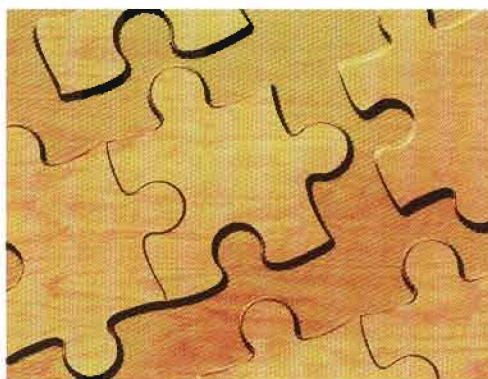
Yvonne M., New York, NY



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7. Always offer the household worker a GROSS wage, stated in rate per hour!

A gross wage is the employee's earnings before any deductions. This insures that the nanny knows her true pay rate, and helps you avoid unintended tax obligations. The work agreement should specify which taxes you will be deducting from the paycheck, and which taxes the nanny may be responsible for (income taxes for example).

Be prepared with an approximation of the employee's net wage (take home) as this is an important consideration nannies have when evaluating the position

4nannytaxes.com's free tax calculators are available 24/7 free of charge, or simply phone 800-NaniTax and ask for assistance.

8. Don't hesitate to ask for help!

Our trained staff is available weekdays to assist you with a variety of issues, including:

- Calculate alternate payroll scenarios.
- Budgeting your total out of pocket expense.
- Convert a weekly wage into hourly rate terms.
- General questions related to wages, benefits and labor law.

Simply call 800.626.4829.

9. Understand the 'nanny tax' compliance process.

You will need to register with Federal and State taxing authorities to obtain tax ID numbers, will need to keep accurate and contemporaneous time and wage tracking records, will typically need to report and pay State taxes quarterly and may make quarterly Federal tax payments. Additionally, at the end of the year you will need to provide your employee with a W-2 form and will need to prepare and include a Schedule H with your annual Federal Form 1040.

10. Feel the peace of mind!

Nanny tax compliance brings you important peace of mind. Your compliance protects your family against back wage claims from a disgruntled former employee, provides your employee with unemployment benefits when the need arises, and insures that you will not be knowingly submitting a false Federal income tax return! And if this all sounds like it is just *"too much!"* consider outsourcing some or all of the tax and payroll paperwork. We offer a variety of economical, tax deductible service plans - one is sure to fit your needs.

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