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Abstract: When employing household workers — which may also include housekeepers, cooks, gardeners, health care workers and other employees — it's important to understand the tax obligations, commonly referred to as “nanny taxes.” This article provides a quick review.

Are you liable for “nanny taxes”?

If you employ household workers — which may include nannies, babysitters, housekeepers, cooks, gardeners, health care workers and other employees — it's important to understand your tax obligations, commonly referred to as “nanny taxes.” Here's a quick review.

Which workers are covered?

Simply working in your home doesn't necessarily make a worker a household employee. You're not required to withhold or pay taxes for independent contractors — such as occasional babysitters who work for many different families.

But the rules for distinguishing between employees (who trigger nanny tax obligations) and independent contractors (who don't) are complicated, So be sure to consult your tax advisor if you're uncertain.

Which taxes must you pay?

Your nanny tax obligations vary depending on the type of tax:

Income tax. You're not required to withhold federal income taxes (or, usually, state income taxes) from a household employee's pay, unless the employee asks you to and you agree. In that case, you'll need to have the employee complete Form W-4 and you'll need to withhold income taxes on both cash and noncash wages (other than certain meals and lodging).

FICA taxes. You must withhold and pay FICA taxes (Social Security and Medicare) if your household employee's cash wages reach a specified threshold (\$2,300 for 2021). If you meet the threshold, you must *pay* the employer's share of Social Security taxes (6.2%) and Medicare taxes (1.45%) on the employee's cash wages (but not on meals, lodging or other noncash wages). In addition, you're responsible for *withholding* the employee's share of these taxes (also 6.2% and 1.45%, respectively), although you may opt to pay the employee's share rather than withholding it.

Note: There's no FICA tax liability for wages you pay to certain family members or to household employees under the age of 18 if working for you isn't their principal occupation. A student who babysits on the side would be one example.

Unemployment taxes. You must pay federal unemployment tax (FUTA) if you pay total cash wages to household employees (other than certain family members) of \$1,000 or more in any quarter in the current or preceding calendar year. The tax applies to the first \$7,000 of an employee's cash wages at a 6% rate, although credits reduce that rate to 0.6% in most cases.

How are taxes reported and paid?

Unlike businesses, you generally don't need to file quarterly employment tax returns for household employees. Rather, you report household employment taxes on Schedule H of your personal income tax return. However, if you own a business as a sole proprietor, you may add the taxes for household employees to the deposits or payments you make for your business employees and include household employees on Forms 940 and 941.

Even if you report household employment taxes on Schedule H, you're still responsible for paying the tax throughout the year, either through quarterly estimated tax payments or by increasing withholdings from your wages. Otherwise, you'll have to pay the tax when you file your return and be subjected to penalties for underpayment of estimated tax.

You'll also need to file Form W-2 if you're required to withhold FICA taxes or agree to withhold income taxes for a household employee.

Know your obligations as an employer

In addition to the tax requirements discussed above, there may be other obligations that come with being an employer. These may include complying with minimum wage and overtime requirements, and documenting immigration status. Turn to your tax advisor for more information.

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