

# Tax Obligations During Domestic Employment

You may be like many nannies and other household employees who often have questions about your employment status and tax obligations. It's worth understanding your (and your employer's) responsibilities at the beginning of employment even if it's just a temporary placement.

Here are some key questions and answers for household employees.

## Am I an employee or an independent contractor?

In almost all situations, nannies and other household workers are considered to be employees and not independent contractors. Employees take instruction from the employer, have their schedule set by the employer and use their employer's supplies, tools and equipment. Independent contractors — perhaps a lawn care service — works under their own conditions, sets their own schedule and uses their own supplies. The IRS and state tax authorities will basically treat a household employee the same way as someone who works in an office, retail store or restaurant.

## Will I have taxes taken out of my paychecks?

If you earn more than \$2,100 from one family during the year, your employer must withhold Social Security and Medicare taxes. Social Security is withheld at 6.2% and Medicare at 1.45% of your gross pay. The amount of federal and state income tax withheld from your paycheck depends on your marital status and how many allowances you choose to claim on your W-4 form. Your employer will pay the same in Social Security and Medicare taxes as well as unemployment insurance.

## Do I have to pay any taxes?

If you earn less than \$2,100 from any family, then your employer is not obligated to withhold taxes. But you will still have to file an annual income tax return and report any wages earned during the year, even if it is less than \$2,100. Keep an accurate record of your earnings; this will help you pay both federal and state income taxes for the calendar year when you file your tax returns.

Use our nanny tax calculator (<http://bit.ly/GTMCalculator>) to determine how much in taxes will be withheld from your paycheck.

## What if the family I work for doesn't want to pay taxes?

If your employer is paying you more than \$2,100 in a year, they are required by law to withhold taxes. We understand you may encounter a family that wants to pay you "under the table." Explain to the family that it is in their best interest (and yours) to pay you legally. Some of the following reasons may also help:

- Your family can take advantage of their employer's flexible-spending plan (commonly called an FSA) and deduct your salary as a qualifying expense.
- Your employer has to report your wages and the taxes they withheld for you on their personal income tax return. The IRS may investigate, fine or penalize families that don't follow the law.
- Not paying you properly denies funds to your Social Security account, impedes your ability to obtain credit, and leaves you unprotected if you become unemployed.
- You and your employer have a happier relationship. You have a legal, recorded employment history and are eligible for Social Security, Medicare and unemployment assistance. Your employer reduces the risk of an IRS audit or hefty fines for being non compliant.