

What Can Go Wrong?

6 Things That Can Happen When Paying Your Nanny Under the Table

It may seem easy to just cut a check or hand over cash to your nanny each week for her services. You don't have to deal with tax calculations, forms and the hassles that come with being an employer. Your nanny may feel the same way. However, that's a roll of the dice – for both you and your nanny – and one that you may not be able to afford. Here's why:

1. Your Nanny Files for Unemployment

For whatever reason, you and your nanny part ways. Perhaps it didn't work out or your kids are now in school so you don't need a full-time caregiver. She now needs to find a new job and files for unemployment benefits to help during the transition period. But your state's labor department has no record of your nanny holding a job. And why would they? You haven't been paying unemployment insurance. A red flag is immediately raised and you can expect a call from the state with a hefty fine soon to follow.

2. Your Nanny Gets Hurt on the Job

Any number of injuries or illnesses can happen on the job. Some can be serious enough to send your nanny to her doctor's office or even the hospital. The doctor asks how she got hurt. In retelling her story, she says it happened while she was working. Now there's a workers' compensation claim. You live in one of the many states that require household employers to carry workers compensation insurance for their employees. Of course, the workers' comp board in your state has no record of her even being employed because you haven't paid your nanny legally. Again, expect to be contacted by your state and prepare to open your wallet.

Workers' compensation helps restore your nanny's lost wages and cover some of her medical bills. Even in states where workers' comp may not be required, it's a good idea to have this protection.

3. You've Hired a "Less than Professional" Nanny

A nanny who takes their job seriously likely won't take your position if you plan to pay her under the table. They know the benefits of being paid on the books even if it means a little less in their paychecks each week. They have a verifiable income and a legal employment history. They can receive unemployment, Social Security and Medicare benefits. And now, the Affordable Care Act requires everyone to have health insurance or pay a fine. By being paid legally, your nanny may qualify for a subsidy when purchasing coverage through a health insurance marketplace.

This is the type of nanny you want looking after your children. Your chances of having a long-term relationship with a "professional" nanny are much greater than with one where joining together in tax fraud is the beginning of your association.

4. Your Nanny Sues for Not Withholding Taxes

Let's say you and your nanny decide to pay off the books. She's enjoying the extra money in her paycheck and so far you haven't had any issues. However, she starts to understand what she's missing. She can't get credit or apply for a loan as she has no work history. She realizes she's not saving money toward retirement. She sees other nannies enjoying these benefits. Now she wants to be part of it. So she sues you for not following the law.

5. You Incur Fines and Penalties for Not Following the Law

There are a number of wage and labor laws and regulations that domestic employers need to follow. Some may be bundled into a Domestic Workers Bill of Rights for your state. Others fall under the Fair Labor Standards Act (FLSA), Department of Labor rules or IRS designations. These rules designate how to classify an employee tax purposes, pay your employee including for overtime hours, properly track hours, provide time off, pay a minimum wage and more. Not following the law will get you in trouble with your state and possibly the federal government. They won't hesitate imposing a fine or penalty for your missteps.

6. You've invited an IRS or State Tax Agency Audit

Getting caught paying your nanny "under the table" in any of the above scenarios could also trigger an IRS audit. Now the government is looking through your tax returns to see what else you may up to. If you haven't done anything else wrong, the audit could just be a hassle. But you still may need to pay back taxes or a fine for not legally paying your nanny. [According to The Motley Fool](#), failing to pay employment taxes can cost on average \$25,000 in penalties and interest.

GTM can help

Take the time to do nanny taxes the right way.

Or, even better, have someone do it for you and save yourself the trouble. You will have peace of mind and may be able to take advantage of tax savings through the Child and Dependent Care Tax Credit and your employer's Dependent Care Flexible Spending Account.

Call GTM Payroll Services at (800) 929-9213 for a complimentary, no-obligation consultation with a household employment expert.

For more information on how to pay your household employees the right way, download [The Complete Guide to Household Payroll](#) or visit GTM.com/Household.