

HOW TO FOLLOW NANNY TAX LAWS

A Guide for Accountants and their Clients

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Classify a worker as an employee

Nannies and other household workers are employees and not independent contractors. Misclassification is felony tax evasion. Employees get a W-2 not a 1099 at year end.



Use Form I-9 for work eligibility

Household employees should complete Form I-9 to support their identity and employment authorization. Even unintentional violations of can lead to substantial penalties for your client.



Get workers' comp insurance

Required for household employers in many states, lack of mandated coverage is a big risk. Fines in the thousands can rack up as well as liability for an employee's medical bills and lost wages.



Pay minimum wage & overtime

Household workers are protected by FLSA. They must be paid at least the highest of federal, state, and local minimum wage rates. Overtime kicks in at 40+ hours in week (some exclusions).



Track employee's hours

Tracking hours will help in resolving pay disputes, remitting quarterly taxes, and putting together Schedule H. Determining hours an employee worked isn't something to do during tax season.



Keep business payroll separate

In most cases, household employees can't be added to a client's company payroll. That's against the law because it's considered an illegal tax deduction for the business.



Use Schedule H ... not Form 941

Using Form 941 can create more work, increase penalty risk, and cause dual reporting. Report household employment taxes on Schedule H and file with a client's personal taxes.