

Abstract: When someone hires household help — such as an in-home caregiver, gardener or personal chef — that individual may become an employer. With employer status comes a variety of specific tax obligations. This article explores four questions that everyone should ask before saying, “You’re hired.”

4 questions to ask before hiring household help

When you hire someone to work in your home, you may become an employer. Thus, you may have specific tax obligations, such as withholding and paying Social Security and Medicare (FICA) taxes and possibly federal and state unemployment insurance. Here are four questions to ask before you say, “You’re hired.”

1. Who’s considered a household employee?

A household worker is someone you hire to care for your children or other live-in family members, clean your house, cook meals, do yard work or provide similar domestic services. But not everyone who works in your home is an employee.

For example, some workers are classified as independent contractors. These self-employed individuals typically provide their own tools, set their own hours, offer their services to other customers and are responsible for their own taxes. To avoid the risk of misclassifying employees, however, you may want to assume that a worker is an employee unless your tax advisor tells you otherwise.

2. When do I pay employment taxes?

You’re required to fulfill certain state and federal tax obligations for any person you pay \$2,100 or more annually (in 2018) to do work in or around your house. (The threshold is adjusted annually for inflation.)

In addition, you’re required to pay the employer’s half of FICA (Social Security and Medicare) taxes (7.65% of cash wages) and to withhold the employee’s half. For employees who earn \$1,000 or more in a calendar quarter, you must also pay federal unemployment taxes (FUTA) equal to 6% of the first \$7,000 in cash wages. And, depending on your resident state, you may be required to make state unemployment contributions, but you’ll receive a FUTA credit for those contributions, up to 5.4% of wages.

You don’t have to withhold federal (and, in most cases, state) income taxes, unless you and your employees agree to a withholding arrangement. But regardless of whether you withhold income taxes, you’re required to report employees’ wages on Form W-2.

3. Are there exceptions?

Yes. You aren’t required to pay employment taxes on wages you pay to your spouse, your child under age 21, your parent (unless an exception is met) or an employee who is under age 18 at any time during the year, providing that performing household work isn’t the employee’s principal occupation. If the employee is a student, providing household work isn’t considered his or her principal occupation.

4. How do I make tax payments?

You pay any federal employment and withholding taxes by attaching Schedule H to your Form 1040. You may have to pay state taxes separately and more frequently (usually quarterly). Keep in mind that this may increase your own tax liability at filing, though the Schedule H tax isn't subject to estimated tax penalties.

If you owe FICA or FUTA taxes or if you withhold income tax from your employee's wages, you need an employer identification number (EIN).

There's no statute of limitations on the failure to report and remit federal payroll taxes. You can be audited by the IRS at any time and be required to pay back taxes, penalties and interest charges. Our firm can help ensure you comply with all the requirements.

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