

Paying Your Nanny Properly



Introduction

At HomeWork Solutions, we understand the nuances and responsibilities of being a household employer. Whether you're hiring a nanny, housekeeper, or any other household employee, it's essential to handle payroll and taxes correctly to ensure fair and legal payment. Here's a guide to help you navigate these obligations smoothly and confidently. Below is an example of what an employer can expect their budget to look like for hiring a household employee.



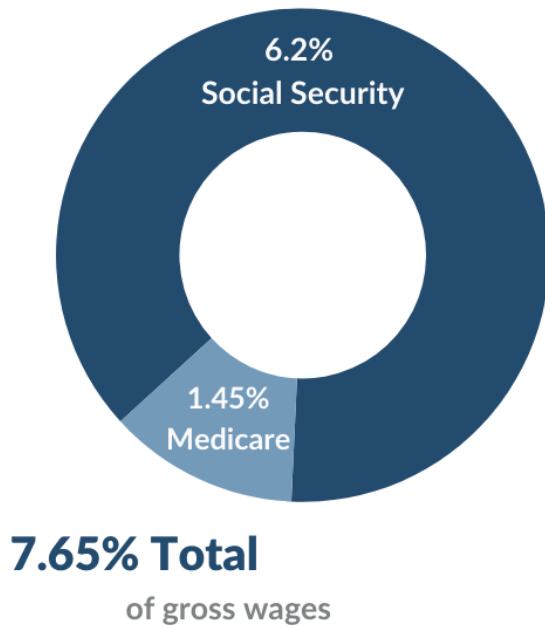
Understanding Your Employer Responsibilities

First, confirm if you're a household employer. This status applies if you control what work is done and how it is carried out by someone you pay directly, like a nanny or housekeeper. If you pay \$2,700(2024) or more in wages in a calendar year, you're likely a [household employer](#) with responsibilities for handling certain taxes and insurance requirements for your employee. Nannies are employees, [not independent contractors](#), in the eyes of labor and tax authorities. Misclassification can come with big consequences down the road.

Your Tax and Insurance Obligations:

Payroll Taxes

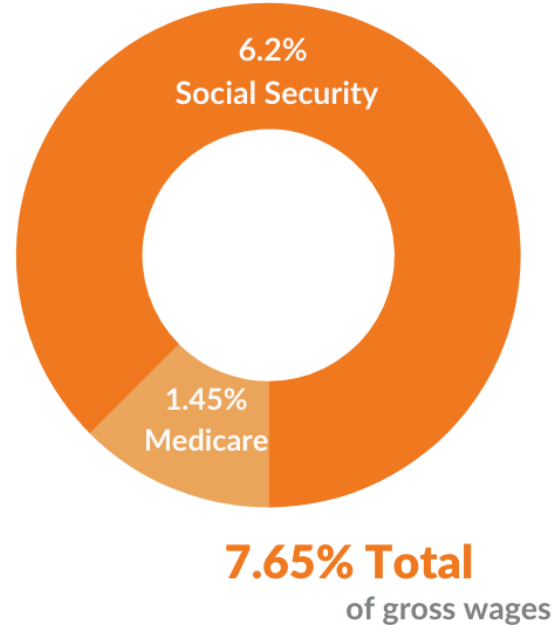
Paid by Employer



Employer Also Pays

- Federal Unemployment
- State Unemployment
- Local Taxes Where Applicable

Paid by Employee



Employee Also Pays

- Federal Income Tax
- State Income Tax
- Local Taxes Where Applicable



As a household employer, you are responsible for:

1. Social Security and Medicare Taxes (FICA): Both you and your employee contribute 7.65% each, totaling 15.3%. It's crucial that you withhold the employee's share from their pay and remit both portions to the IRS. Not withholding these taxes at the time of payment to your employee will result in becoming liable for the full 15.3% yourself.

2. Federal and State Unemployment Taxes (FUTA and SUTA): These taxes are paid by the employer and fund unemployment benefits. You must pay FUTA if your employee earns \$1,000 or more in any calendar quarter. The FUTA tax rate is .6%-1.2% depending on your state. SUTA thresholds [vary by state](#), and generally become due when an employee earns between \$500 - \$1,000. SUTA tax rates also vary by state, ranging from 0.06%-12.34%, with most new employers paying around 3%.

3. Workers' Compensation: This insurance covers any work-related injuries without the need to engage in costly legal battles. It is purchased by the family, provides benefits for work-related injuries or

illnesses without regard to fault, and is a [legal requirement in 28 states](#). Most families find that the easiest and most cost-effective way to obtain coverage is through their current homeowner's or renter's policy provider.

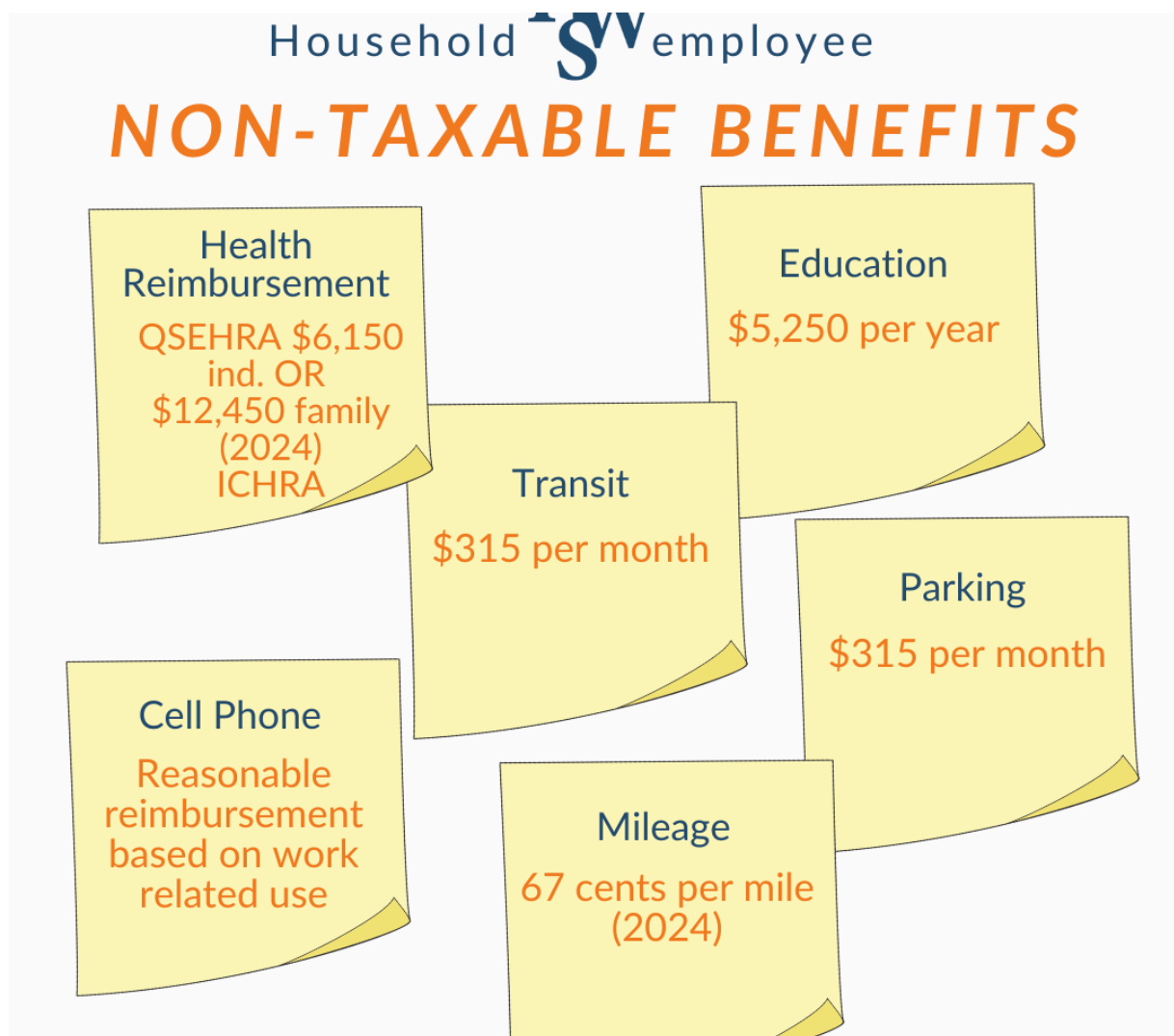
Federal and state taxes are generally remitted to the taxation authorities quarterly, along with the proper documentation forms. Workers' compensation is generally purchased annually.

Hours, Pay, and Benefits:

Hours Worked:

Nannies and most other household employees are [hourly employees](#) under the [Fair Labor Standards Act](#) (FLSA). This means they need to be paid based on an hourly wage, including [overtime](#), when applicable for [all hours worked](#). Additional labor laws, which [vary by state and even locality](#) also apply.

Tax-Free Fringe Benefits Lessen the Taxes Burden:



Creating a total compensation package that includes fringe benefits can be a real win-win. Many [fringe benefits](#), like mileage reimbursement, [health care reimbursement](#), transit, parking, educational assistance, and other work-related expenses, can be offered without taxes being assessed to the employer or the employee. This means that your compensation budget can go further in providing the benefits your employee wants most.

Documentation and Legal Requirements:

Being an employer comes with certain record keeping and document requirements. You should familiarize yourself with your requirement to provide documents such as [paystubs](#) and an annual [W-2 form](#) to your employees. These documents are not just paperwork; they are your proof you are fairly and legally employing your household workers.

In addition to the documents you provide to your employees, you will also need records and documents for yourself. Ensure you keep records throughout the year detailing your payments to the employees, withholdings, and tax filings. Annually, you need to include a [1040 Schedule H](#) in your yearend personal income tax filing to account for the wages you paid out to household employees.

Final Thoughts

Remember, paying your household employee legally isn't just about compliance; it's about respecting and professionalizing the caregiving profession. Ensuring fair and legal payment practices helps everyone involved and sets a solid foundation for a respectful and long-lasting employment relationship.

Navigating the financial responsibilities of hiring a household employee can be complex, but with HomeWork Solutions, you're never alone. For more detailed assistance or to discuss your specific needs, contact HomeWork Solutions for a complimentary consultation. We will walk you through everything. We even offer comprehensive payroll and tax solutions, so you can let us handle the details, and you can focus more on what matters most - your family.

