

NAVIGATING NANNY TAXES

To legally hire a nanny you need to verify work eligibility, pay Social Security taxes for them, and keep track of their tax deductions, medical benefits, and other insurance. Preparation in the beginning will cause fewer complications down the road.



RISKS

- In the event of an audit – If you are audited and they find that you have not paid household employee taxes, you not only risk tax penalties, but possibly criminal penalties. Doctors can lose licenses and attorneys can get disbarred.
- Unemployment benefits – When you no longer need your nanny's services and they cannot find a new job, they are eligible to file for unemployment benefits and will need to report estimated earnings from the previous employer.
- Social Security Claims – There is no statute of limitations on failure to pay nanny taxes. Your nanny could file for Social Security benefits (including disability benefits) and need to give a record of her work history. You will have to reconstruct her employment history and pay both yours and the nanny's portion of the taxes, with additional penalties.

TAX BENEFITS

- Dependent Care Flex-Spending Account – You can contribute up to \$5,000 to your dependent care FSA and pay for nanny expenses. Please note that both spouses have to have earned income in order to be eligible for dependent care FSA.
- Child Care Tax Credit – You will be eligible to take up 20% credit on all eligible costs, up to \$3,000 for one child/\$6,000 for two children (note that this is a dollar-for-dollar credit, not a deduction from your adjusted gross income). You should qualify for the full \$6,000, but your tax accountant will be able to confirm eligibility.

TAX RATES FOR EMPLOYER AND EMPLOYEE

- Employee - You will be deducting 7.65% for Social Security and Medicare from your nanny's income.
- Employer - You will be paying 7.65% for Social Security and Medicare on your nanny's income.
- Federal Unemployment Tax (FUTA) –There is also a very small FUTA tax you will need to pay that is 0.8% of the first \$7,000, which amounts to an additional \$56/year.

SETTING UP NANNY PAYROLL

- Companies – These companies have a payroll service specifically for nannies:
 - GTM Payroll Services
 - SurePayroll

WORKER'S COMP & DISABILITY

In NY and NJ, you are only required to have this insurance if your nanny works 40 hours/week or more.

These are just a few items that help address your household employee issues. Be sure to consult your Lenox Advisor, tax and legal professionals to ensure you make the best choices for your unique situation.

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