

Frequently asked questions

about household employment

Is my worker a household employee or an independent contractor?

According to the IRS, in most cases your household workers are employees. The difference between an employee and an independent contractor is based on a few different things. If your family controls who, what, when, where or how the work is performed, then you've got an employee. An independent contractor provides their own tools and sets their own hours—they just have to finish a specific job within a set timeframe. The IRS therefore typically sees your household workers as employees. There are very few exceptions, but you can get a formal ruling by filling out Form SS-8 with the IRS.

What are my tax obligations as a household employer?

Household employers can expect to pay the following employment taxes:

- Social Security & Medicare
- Federal and state unemployment insurance

Good news! You may be able to largely—if not completely—offset your employer tax costs with tax breaks. As a household employer, you're also required to withhold certain state and federal taxes from your employee's pay. You must remit these withholdings, along with your own taxes as an employer, to state and federal tax agencies throughout the year. For specific employer and employee taxes in your state, visit our free household payroll calculators.

Are there any tax breaks?

Yes! As a working family with child care expenses, you may be eligible for two tax breaks, regardless of your income level:

- Flexible Spending Account (offered by many companies)
- The Dependent Care Tax Credit—if you have 2 or more children, you may be able to capitalize on both tax breaks and save as much as \$2,500 per year.

Are there any tax benefits if I offer health insurance?

Yes. When you contribute toward your employee's health insurance premiums, it's not considered taxable income. So neither you nor your employee have to pay taxes on that part of the compensation. You can pay the premium to the insurance company, or you can simply give your contribution directly to your employee. If you do the latter, you must keep a copy of a current health insurance card as proof of insurance.

Do I need to provide paid vacation, holidays and sick days?

Federal law generally does not require you to provide paid time off for vacation, holidays and sick days, although most families offer some level of paid time off to attract and retain quality employees. You should outline the specifics of your offer in a work agreement. Note: Some state and local jurisdictions have special requirements for paid time off. Please call for details in your area.

Do I need to pay overtime?

Federal law says that your employees are entitled to overtime pay whenever they work more than 40 hours in a 7-day work week.

(There's an exception for live-in employees under federal law and most state laws. Call for live-in overtime details in your state).

The overtime rate must be at least 1.5 times regular pay.

Domestic workers are protected under the Fair Labor Standards Act, so overtime law applies even if you pay your employee a salary. In that case, you should address overtime in the contract by breaking the salary into regular and overtime rates. For example, if you pay your employee \$700 for a 45-hour workweek, then it breaks down to \$14.74 for the first 40 hours and \$22.11 for the remaining 5 hours. If they go over 45 hours, they must be paid at the overtime rate.

To protect yourself from potential wage disputes, you should put these overtime details in writing and have your employee sign the agreement.

What is workers' compensation and do I need to carry it?

Workers' compensation is an insurance policy that provides financial help with lost wages and medical expenses if your employee suffers a work-related injury or illness. Without this coverage, you may be held responsible for lost pay and expenses. In addition, some states require you to carry a workers' comp policy, and violators are subject to fines. For workers' comp requirements in your state, click here. As part of our setup process, we'll get the necessary IDs and guide you to the most convenient and affordable solution.

Can I run my nanny's payroll through my own business?

A business is only allowed to take tax deductions on employee payroll for employees who are "direct contributors to the success of the business." The IRS says that a nanny probably does not qualify as a "direct contributor," and it's illegal for a business to receive any kind of improper tax break. However, a nanny is a contributing member of the household, so your family may be entitled to child care tax breaks on your personal income tax return.

What is the process for handling payroll & taxes as a household employer?

The payroll and tax compliance process is complex and details vary by state. Here's a general overview of what's involved:

- Register for federal and state tax accounts
- Complete and file New Hire Report
- Calculate taxes to be withheld each pay period (most states require a paystub)
- Track gross pay, net pay and taxes withheld
- Calculate the employer's federal and state tax liabilities
- Prepare and file state and federal employment tax returns (along with payment of employee and employer taxes)
- Respond to IRS and state notices and alerts
- Monitor ever-changing household employment tax and labor law

We can take all of this off your plate with our comprehensive no-work, no-worry service. To learn more, watch our brief video or call for a free personalized assessment and orientation.

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