



Guide to Household Payroll

Employer Financial and Legal Obligations
Every Family Should Understand



Welcome!

Congratulations on your new household employee.

HomeWork Solutions, Inc. is a nationally recognized expert in household employment taxes. We help families understand and manage the financial and legal aspects of household employment, and provide time-tested, family-friendly solutions that drastically reduce the time and effort it takes to comply with all federal and state tax and labor laws.

This guide will help you understand your responsibilities and obligations as a household employer.

HWS Will Help You Do the Right Thing

HWS knows that most families want to pay their household employees legally and insure that the employee receives workers compensation and unemployment insurance protections. The hassle of figuring out the tax rules, securing the necessary tax accounts and dealing with all the paperwork and calculations can seem overwhelming. HWS was founded specifically to help families like yours to do the right thing with a minimum of fuss and bother.



It is complicated, but HWS can help!
Call **1-800-NANITAX (800-626-4829)**
for a free phone consultation.

Employee or Independent Contractor?

Many people are confused by the distinction between employees and independent contractors. This distinction is important because employers of household employees file and pay employment taxes. Independent contractors handle their own tax filings. The IRS uses a 20 factor test to determine whether the worker is an employee or a contractor; however, determination is primarily contingent on who controls the work being performed. If you have the right to control or define the work to be done and how the work will be done, according to the IRS you are an employer.

Examples of household employees include:

- Nannies and babysitters
- Housecleaning workers, maids and housekeepers
- Health aids, senior caregivers and private nurses
- Caretakers, drivers and yard workers

Employees may work full-time, part-time or seasonally.

The IRS provides examples of independent contractors, individuals you hire in your home that are typically not your employee.

- Plumbers and Electricians
- Workers sent by a lawn maintenance service or a maid service when you pay the company

Do you have questions? HWS' trained staff can help you understand whether your nanny or other household worker is an employee or an independent contractor. Call HWS at **800.626.4829**.

Employers are Required to Pay “Nanny Taxes”

If you have a household employee, and you pay the employee \$2,600 or more in a year, you are required to pay payroll taxes. Although commonly referred to as “nanny taxes”, these taxes apply to all household employees, including housekeepers, babysitters and elder care workers.

Employer taxes typically total about 10% of the employee’s wages and include:

- Employer Social Security & Medicare Taxes
- State and Federal Unemployment Taxes

Your household employee contributes to or pays:

- Employee Social Security & Medicare Taxes
- Federal/State/Local Income Taxes

Employers are solely responsible for remittance of ALL Social Security and Medicare (payroll) taxes. These taxes are part of the employer’s personal Federal Income Tax Return.

Did You Know...

Your household employee cannot pay their share of Social Security and Medicare taxes on their own - you either must deduct from their paycheck or agree to pay from your own funds.



Best Practices at Time of Hire

When you hire a household employee, you become an employer and you are required to complete paperwork for the Federal government, your state and for your own records, including:

1. Calculate Employee Tax Withholding and Household Employer Budget
2. Verify Employee's Social Security Number and Employment Eligibility
3. Draft a work agreement and document compensation agreement—a Pay Rate Notice may be required at time of hire
4. Register for Federal and State tax accounts and file the New Hire Report
5. Obtain Workers' Compensation and Disability Insurance
6. Explore Tax Credits

Did You Know...

The IRS estimates that household employment tax compliance takes 60 hours a year.

It is complicated, but HWS is here to help with turnkey solutions and expert staff who take care of this administrative hassle. Call **800.626.4829** for a free telephone consultation and simplify your "nanny tax" compliance.

The Work Agreement

Documenting the work agreement ensures that you and your employee are on the same page regarding pay, benefits and scope of duties. A work agreement should include:

- The work schedule
- The scope of the employee's duties
- Compensation, including regular and overtime rates of pay and the guaranteed weekly base pay (if offered)
- Frequency of payroll and the employer and employee tax obligations
- Paid time off agreement, as well as specifics on paid holidays (if offered)
- Expense reimbursement policy
- For live-in employees, statement regarding the termination of tenancy rights when employment terminates
- Confidentiality agreement
- Separation agreement, including return of family property (if applicable)

Did You Know...

The family with the "nightmare nanny" who refused to move out when fired could have avoided this mess with proper compensation and work agreements.

HWS has free templates to get you started. Call **800.626.4829** or download our free template at www.homeworksolutions.com/nannyworkagreement



Workers' Compensation Insurance

Many states require employers to purchase Worker's Compensation Insurance and/or Disability Insurance policies. Workers' Compensation protects employers and employees from the expense of an on-the-job injury or accident.

Did You Know...

Many families are surprised to learn that homeowner's insurance will not cover accidents or injuries to a household employee. Additionally, not all insurance agencies will issue Workers' Compensation insurance policies for household employees.

HomeWork Solutions can help you locate this insurance through our preferred partner. Call **800.626.4829**.

Tax Savings for YOU

Many household employers are entitled to tax credits on their personal tax returns for childcare and senior care expenses. We recommend that you consult with your personal tax advisor and human resources department to determine the strategy that is most appropriate for your situation.

Dependent Care Accounts

Many companies make Dependent Care Accounts, also known as Cafeteria Plans or Flexible Spending Accounts, available to their employees. You should check with your employer's Human Resources Department to find out what is available to you.

What are these accounts? Authorized under the Internal Revenue Code, dependent care accounts are a negotiated employee benefit. You may contribute "pre-tax" dollars, up to a maximum of \$5,000 per year, into this account and use these monies to reimburse your dependent care expenses. These dollars contributed are sheltered from Federal and most state income taxes, reducing your taxable income. There are restrictions on these accounts. Your employer's Human Resources Department can provide you with details. This is typically the most beneficial option for household employers.

Child Care Credit

The Child Care Credit allows the employer of a nanny or other childcare provider to claim a tax credit on their personal income taxes. The amount of this credit varies by income and the number of children you have.



COMPLETE PAYROLL

Simple Paydays & Effortless Tax Reporting

Expert Employer Guidance

HWS clients appreciate that our enrollment specialists take the time to learn the specifics of their situation, and patiently guide them. We will:

- obtain all of your tax account numbers
- help you obtain workers compensation insurance
- help you understand your financial commitment



Most importantly, HWS listens to your concerns, and offers you the experience and resources to get the financial relationship with your nanny off on the right footing.

Simple Paydays

You are assigned a personal payroll representative who knows you and your situation. Payday couldn't be easier!

Automatic payroll is our client's most popular option. We will process your standard payroll every payday, without you having to lift a finger.

—OR—

Submit your payroll online, on the telephone or via email—whatever is easiest for you. We will remind you of paydays!



Nannies love direct deposit payroll!

HWS will accurately calculate all deductions and tax amounts, and direct deposit to your nanny's account. Paystub records are conveniently stored online.



Effortless Tax Compliance

Payroll clients don't ever worry about tax deadlines or late filing penalties.

- HWS will file the reports and pay the tax for you automatically, on-time, guaranteed.
- You receive email notice that this is all done. We even provide you an IRS link so you can check behind us if you wish!
- All end of year tax documents—including your nanny's W-2 form—are prepared.
- Important documents are available online, available to you, your nanny and your accountant.



Concierge Level Support

HWS' live household payroll experts await your questions every Monday–Friday from 8:30AM–7PM EST. No menus, no phone trees... just friendly expert advice and guidance. Unlimited support included.





HWS

The HWS Difference

We Take Care of Everything

HWS families can rest easy knowing that all labor and tax compliance items are taken care of by a HWS tax expert. If you are paying your nanny the same thing every week, we can even setup your payroll so that it runs automatically without you ever having to do a thing.

This is All We Do

Household payroll has many unique and often nuanced laws, specific regulations and exceptions and exemptions that differ from corporate or business oriented payroll. Most payroll companies simply do not understand or handle household payroll issues properly. At HWS, we are focused solely on household payroll and domestic employment. It's all we do, it's all we have ever done.

Our Reputation is our Promise

Since 1993 HWS has helped tens of thousands of families through every conceivable household employment issue or challenge. We have been consulted by the Wall Street Journal, The New York Times, Fox and many other national media. Our knowledge, expertise and reputation are the

reasons organizations such as the World Bank and IMF partner with us to ensure their staff with domestic employees stay in compliance with all U.S., state, and local laws. It's the reason most of our clients are referred to us from other clients, CPAs or referral agencies.

Friendly Expert Support

A live household tax and labor law expert awaits your questions every Monday–Friday from 8:30AM–7PM EST—no menus, no phone trees, just friendly expert advice. We offer the concierge-level service only a small, dedicated team can provide.

We Guarantee Our Work

When you use our payroll service, we guarantee your payroll tax returns will be filed accurately and timely, and all applicable payroll taxes will be paid on time. No notices, no penalties, no red tape, guaranteed!

Affordable Options

We offer two service options to meet your needs and budget and our low, quarterly, flat fees make our service very affordable no matter what your budget constraints are.

For our current fees please call or visit homeworksolutions.com



Our Story

When HWS' Kathleen Webb hired her first nanny in 1987 she thought she had simplified her life with reliable live-in childcare. She quickly realized how complicated being a household employer can be: tax and labor obligations, worker's compensation insurance, it was all so time consuming for a busy working mom. She turned to her friend, HWS' Alan Heilbron, for help and they soon had this all sorted out.



Fast-forward to 1993, when U.S. Attorney General Nominee Zoë Baird was caught paying her domestic employees "under the table" and the term "nanny tax" was coined. Alan realized there were thousands of busy moms and dads just like Kathy overwhelmed by the myriad details of nanny tax compliance. Over coffee, he proposed creating a service to meet this need. While their 2 year olds enjoyed a play date they put together a business plan to create a "Nanny Tax" service firm. Armed with a print advertisement headlined "Don't be Zoëd" the first Nanny Tax Company was born.

Today, HWS is a leading provider of payroll and nanny tax compliance services to families nationwide. Our friendly staff and flexible service options make us the preferred choice for busy families and referral agencies alike. HWS specializes in simplifying the nanny tax and clients enjoy a concierge level of service only a small, personalized firm can provide.

Questions?

HWS has worked with families like yours for more than 25 years. We specialize in household employment and understand the unique rules, exceptions and regulations that apply to your specific situation. Answering questions and providing expert guidance and friendly service to your family is our mission.

We speak to families like yours every day about issues like:

- Background Screening
- Nanny Share Arrangements
- Benefits
- Traveling/Vacationing With Your Nanny
- Compensating Overnight Stays
- Catch-up with Back Tax Obligations
- Nanny Housing and Live-In Situations

We welcome your telephone call to **800.626.4829** for a free consultation.

Copyright 2022 HomeWork Solutions, Inc. All rights reserved. This guide provides generalized information intended to help you understand household payroll tax obligations. It is not intended as specific legal or tax advice. Your situation may differ from the norm, so you should consult with your lawyer or accountant if you have particular questions.

While the information contained herein is believed to be true and accurate as of the date of publication, the relevant regulation or laws may change, so make sure you are using up-to-date forms, tax rates and information.

HSW HOMEWORK SOLUTIONS



Short Topical Videos available at:

[youtube.com/4nannytaxes](https://www.youtube.com/4nannytaxes)