

Who is a Domestic Employee?

Typically, any full time or part-time worker you pay to perform work in or around your home is defined as a domestic employee. Domestic employees include, but are not limited to, cooks, babysitters, drivers, health aides, private nurses, cleaning people, housekeepers, nannies, and yard workers. Whether or not a worker is considered an employee, domestic or otherwise, has a lot to do with how much control the employer has over the work that is done, and how well it is done. It isn't necessary for the employer to actually exercise this control, just as long as the employer has the actual right to do so. So, any independent contractors or individuals who are employees of agencies working in or around your home are not subject to the tax requirements for domestic employees.

Employment Taxes

FICA– You are not required to withhold FICA taxes unless the wages paid exceed the annual threshold of \$1,600 (in 2008) paid to **each** domestic employee **per calendar year**. (Keep in mind that the threshold for FICA does not exempt the first \$1,600 of wages paid to domestic employees from taxable income.) If the wages paid exceed \$1,600, the entire amount paid is subject to FICA taxes. This threshold can change annually. Be sure to check each year.

You are liable for the employee's share of FICA taxes and can:

- 1) withhold the employee's share from his/her wages, or:
- 2) pay the employee's share yourself.

You are required to increase your quarterly estimated tax payments or alternatively increase the withholding from your own wages in order to pay employment taxes for domestic workers.

Exception: Domestic employees who are under the age of 18 at any time during the year are exempt from FICA taxes, unless the domestic service is their principal occupations. For example, if the individual is a full-time student, domestic service would not be considered his or her principal occupation.

FUTA (Federal Unemployment Tax Act)
A \$1,000 threshold applies for FUTA taxes, It is based on the total wages paid to **all** your domestic employees **per calendar quarter**.

FITW (Federal Income Tax Withholding)
All domestic employees are exempt from FITW. However, income tax can be withheld if both you and the employee voluntarily agree.

Family Employment

Spouse– Wages paid to your spouse for domestic services (not in the course of a trade or business) are exempt from FICA and FUTA.

Parents– Wages paid to your parent for domestic services are generally exempt from FICA and FUTA.

Child– The age of your child will determine if the wages paid for domestic services are subject to FICA coverage. Wages paid for household services performed for a parent by a child under the age of 21 are exempt from FICA. However, if the child is over the age of 21, the wages paid for domestic service are subject to both FICA and FUTA taxes.

Reporting Requirements

Schedule H is used to report federal employment taxes for a domestic employee if any of the following apply:

- 1) FICA wages are paid during the year:
- 2) FUTA wages are paid, or:
- 3) Federal income taxes are withheld.

Schedule H can be filed with your form 1040, 1040A, or filed by itself if you are not required to file a tax return.

Schedule H must be filed by the due date of the tax return, plus extensions.

Employment tax records should be completed for each domestic employee, including Form 1090, *Employment Eligibility Verification*, and Form W-4, *Employee's Withholding Allowance Certificate*, for domestic employees who request voluntary withholding.

An employer identification number (EIN) is also required if you have domestic employees. This number is to be reported on the forms you file for the household employees, including Forms W-2 and schedule H. If you do not have an EIN, a Form SS-4, *Application for Employer Identification Number*, must be filed.

Child And Dependent Care Credit

If you paid a domestic employee to care for your child under the age of 13 (or any other qualifying person) so you could work, attend school full time, or look for work, you may be able to take the credit for the child and dependent care expenses. If you can take the credit, you can include the employer's share of the federal and state employment taxes paid, as well as the wages paid to the domestic employee, in your expenses of Form 2441.



All About Taxes And Domestic Employees

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