

Hiring your minor child –

Payments for the services of a child under age 18 who works for his or her parent in a trade or business are NOT subject to Social Security or Medicare taxes IF the trade or business is a **sole proprietorship or a partnership in which each partner is a parent of the child**. Your child will be responsible for Federal tax and State tax. However, for tax year 2021, your child can earn up to \$12,550 (standard deduction) before any Federal tax kicks in. If your child chooses to contribute the maximum, \$6,000 to a TRADITIONAL IRA, the first \$18,550 of wages will not be subject to Federal tax.

As a business owner, you can deduct the wages paid to your child. If you paid your child wages in the amount of \$18,550, your tax savings would be:

Federal tax rate 12%	\$2,226
Self-employment tax	<u>\$2,621</u>
For a total savings of	\$4,847

Hiring your parent –

Payments for the services of your parent in a trade or business are subject to Social Security and Medicare taxes, but not subject to Federal Unemployment Tax (FUTA). The wages are also subject to Federal and State tax.

To note:

*Wages paid to a minor child/your parent are subject to Social Security and Medicare taxes if paid by a Corporation (even if it is controlled by the parent), a Partnership (where one partner is NOT the child's parent) and an Estate.

*The child/parent must really perform work for the business and the amount paid must be reasonable and distinguishable from an allowance.

*You must keep written records of payments, work performed and file the required Employment forms.

Required Employment Forms:

*A Federal Employment Identification Number (EIN) if you do not already have one. If your child is your only employee, check the box stating your tax liability will be under \$1,000.

*A State Employment Identification Number, if you do not already have one.

*A written employment statement detailing duties, wage and payment frequency.

*Form W-4 for your child

*Form I-9

*File Employer Quarterly Reports or Employer Annual Reports (941/943 and State)

*File Forms W-2 & W-3 and State Wage Reconciliation

*File Form 940 Annually – indicating your child is exempt (line2)

**Keep a record of the hours worked and the amounts paid (as if employee was not your child).