

The “nanny – housekeeper” tax

Q. My husband and I have a housekeeper come in to clean once a week; and someone watches our children for about 10 hours over the course of each week to free up our time for chores. Are there any tax problems here that we are missing?

A. Cooking, cleaning and childcare: domestic concerns – or tax issues? The answer is both. A few years ago, several would-be Presidential appointees were rejected -- when it was revealed that they had failed to pay payroll taxes for their domestic help. The IRS is aggressively looking for cheaters so it's particularly important that you don't stumble through ignorance in not fulfilling your obligations.

Who is responsible

Employers are responsible for withholding and paying payroll taxes for their employees. These taxes include federal, state and local income tax, social security, workers' comp, and unemployment tax. But which domestic workers are employees? The housekeeper who works in your home five days a week? The nanny who is not only paid by you but who lives in a room in your home? The babysitter who watches your children on Saturday nights?

In general, anyone you hire to do household work is your employee if you control what work is done and how it is done. It doesn't matter if the worker is full- or part-time or paid on an hourly, daily, or weekly basis. The exception is an independent contractor. If the worker provides his or her own tools and controls how the work is done, he or she is probably an independent contractor and not your employee. If you obtain help through an agency, the household worker is usually considered their employee and you have no tax obligations to them.

What it costs

In general, if you paid cash wages of at least \$1,300 in 2001 to any household employee, you must withhold and pay social security and Medicare taxes. The tax is 15.3 percent of the wages paid. You are responsible for half and your employee for the other half but you may choose to pay the entire amount. If you pay cash wages of at least \$1,000 in any quarter to a household employee, you are responsible for paying federal unemployment tax, usually 0.8 percent of cash wages.

Deciding who is an employee is not easy. Contact us for more guidance.