

# HIRING YOUR FAMILY

## BUSINESS ADVISORY ACTIONABLE PRINCIPLES

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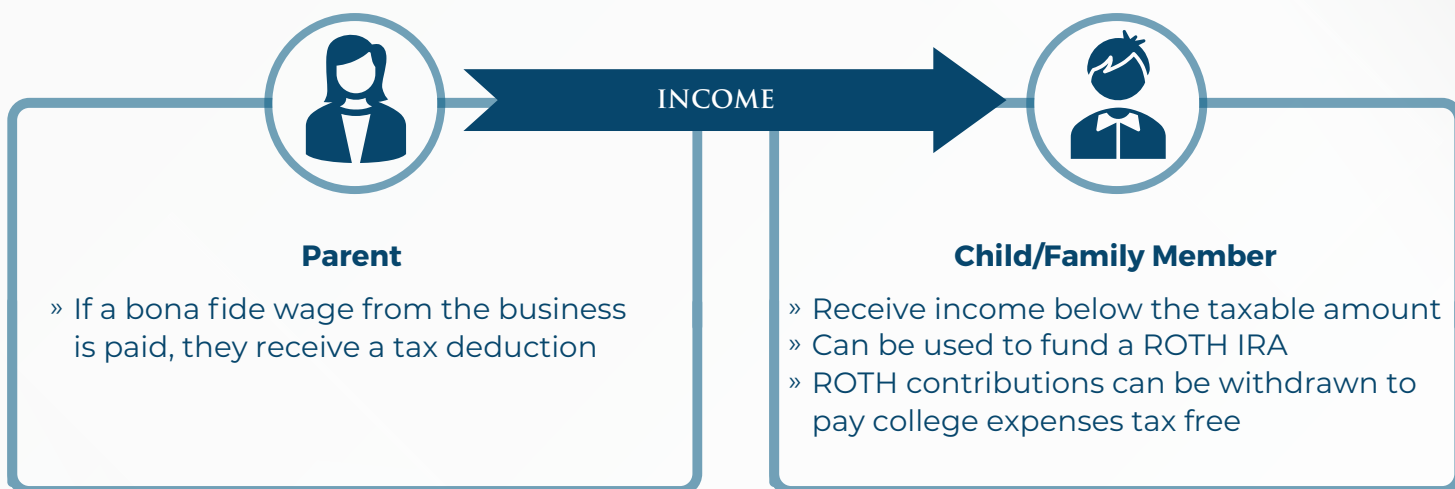


## HIRING YOUR FAMILY

### How much is tax free?

- » Every individual can earn up to the current individual standard deduction amount– tax free
- » If they earn less than that, your family member will not owe any income tax

### Income shifting strategy



## HIRING YOUR FAMILY – REQUIREMENTS

### **Must be a bona fide work arrangement**

- » If you did not hire your child, you would have had to pay someone else

### **Must be a “Reasonable Wage”**

- » You would only be able to pay your child what it would cost you to hire someone else with a similar skill set
- » **Example:** Administrative duties - If the market rate for administrative duties is \$15/hour, this is what you should pay



### **Must be able to prove they did the work**

- » Need to show proof of time spent - time cards or a time log would be sufficient

### **Money must be paid to child's account**


- » The funds need to leave your business account and go into your child's account




## HIRING YOUR FAMILY – THE VALUE

### How much is this worth?

» Tax savings will be based on the business owner's tax rate

 • Payroll taxes will need to be paid if taxed as an S-Corporation or **Partnership**

 • If family member is paid more than the standard deduction, then the tax savings will be the net of the owner and family member's tax rates.

» **Example:** If your marginal rate is 32%  
*Every \$1,000 of wages saves you \$320*

 • Less payroll taxes paid

## STEPS TO HIRE FAMILY MEMBERS

### Determine job descriptions for work to be performed

» Employment forms to complete


 • Employment Offer Letter (recommended)

 • Employment Agreement

 • Direct Deposit forms

 • W-9 and I-9

» Timesheets or Time Log

 • Documentation needed to PROVE the services were performed





## FAQS

### » **Can I pay my children more than the Standard Deduction?**

- » Yes. However, you will need to show evidence the wages paid are REASONABLE for their services. If they earn more than the Standard Deduction, they might have some Fed/State tax due. However, typically they are at a lower rate than the parents

### » **How can you enhance the tax benefit from the salary paid to family members?**

- » The earnings your children make can be used to fund a Roth IRA account which grows tax free and can be used to fund educational expenses tax free. Your spouse's earnings can be used to fund a retirement account which is not subject to income tax up to the specified limits when earned.

### » **What if I cannot get my child to do any work for me or I do not have a job they can perform?**

- » No work – No Pay – No benefit

### » **Do FUTA and FICA taxes apply?**

- » For a spouse both FUTA and FICA apply. If your child is younger than 18 the wages are not subject to FICA or FUTA taxes; 18 to 21 is subject to FICA but not FUTA. Both taxes apply to those older than 21. Wages paid to your parent are not subject to FUTA.

