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James Paille • Jun. 04, 2014



For business owners, hiring family members as employees can lead to significant tax savings. And in many cases, those savings extend to the family members as well as the business owner. Sole proprietorships and corporations are both entitled to tax

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employers can deduct any wages paid to those children from their net income for tax purposes. The children are exempt from paying FICA as well.

- **Employing spouses:** Employing a spouse offers some significant advantages, including savings on FICA tax. When a sole proprietor employs a spouse who also has another job outside the family business, the income from the other job counts toward the sole proprietor's FICA limit on a joint income tax return. So the sole proprietor may see his or her FICA tax burden reduced.

Employing spouses can also open new health insurance options. This stems from the fact that the owners of sole proprietors are not permitted to have health insurance premiums automatically deducted from their wages, nor are they permitted to deduct health insurance premiums from their taxable income. However, this rule doesn't apply to the spouses of sole proprietors. So, as an employee of the sole proprietor, the spouse could sign up for the company's health insurance and include the sole proprietor on the policy.

Corporations: Corporation owners who employ their own children under 18 can deduct wages paid to those children from their income taxes. This applies up to the earned income limit after which the child would have to file an income tax return. Last year, this limit was \$6,100.

Hiring family members can be more than just a source of trustworthy help; it can also result in significant tax savings, especially for sole proprietors. [Detailed information about the tax implications of hiring family members](#) is included on the IRS website.

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