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Paying a nanny off the books, i.e. in cash, can be tempting to both sides of the relationship. Although it is illegal, employers could avoid the hassle of payroll paperwork, and nannies would get to keep their full pay without handing money over to the government. However, despite these temptations, the legal, social, and financial realities for both employer and employee make it the wrong choice. Read on to learn why setting up legal payroll for your nanny and household employees is beneficial for everyone involved.

1. The Unemployment Cushion

No nanny wants to lose her job, but the specter of joblessness is easier to face with

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follow for the employer.

2. Obtaining Health Insurance May Be Cheaper

In the ever-changing healthcare marketplace, the government currently provides subsidies to cut health insurance costs for those who work but cannot afford the full price of premiums. Utilizing the marketplace can be a path to healthcare for many nannies, provided that the work they perform is being properly paid and reported.

On the topic of health, workers' compensation is another safety net for nannies who are employed on the books. In the event of an unfortunate accident, workers' compensation insurance can pay for a nanny's medical bills and lost wages. However, employers can only obtain this insurance for employees hired in full compliance with the law.

3. The Financial Benefits Are Long-Term

Being paid under the table may have its immediate perks, but nannies have to think long-term. At some point in the future, being able to demonstrate verifiable income shows consistency and responsibility to banks, lenders, credit card companies, and landlords, to name just a few interested parties. Pay stubs, bank statements, and other sources to show legal income will be necessary for that great new apartment, home, car, cell phone, or double-miles credit card.

Moreover, this path opens up career opportunities by establishing a work history that any future employer can verify. Even further down life's long road, Social Security and Medicare benefits will become available — but only to those nannies who previously paid into the system as part of a formal payroll structure.

4. The Tax System Has Its Benefits, Too

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Unfortunately, in 2015, [an estimated 20 percent](#) of eligible workers never claimed their tax credit. No nanny employed under the table will ever be eligible for this benefit.

Tax benefits extend to the families that employ nannies, as well. The Dependent Care Flexible Spending Account (FSA) works like a savings account specifically tied to the cost of employing household workers. The money used in a Dependent Care FSA is pre-tax, and can be used to pay nannies and other childcare-related services until the children being cared for turn 13.

Additionally, the [Child and Dependent Care Tax Credit](#) can provide up to a \$6,000 tax credit for qualifying child care expenses. To be eligible, one must show proof of these expenses, which means tracking legal payments to nannies and related costs.

5. Payroll Makes Everyone's Life Easier

Being on a payroll system can make short- and long-term financial planning simple for both nannies and those who employ them. It will allow nannies to understand how much of their gross pay goes toward federal income tax, federal payroll taxes like Social Security and Medicare, state income tax, and any local taxes. Some states, including Florida, Texas, Nevada, and Washington, do not have a state income tax.

When a family makes the decision to hire a nanny, the process of setting up payroll doesn't need to be a daunting task. An accounting team or business who specializes in tax compliance and payroll services can provide guidance. This assistance will help employers keep track of payroll, and will provide the nanny with the W-2 form needed to file taxes each year.

If this all sounds confusing, understand that many people have been in the same position when hiring a nanny. The temptation to pay a household employee under

the table may seem appealing, but the negative consequences, both legally and

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Payroll

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