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season, so here are a few helpful tips you can pass along to your household employment clients to keep them on the right path year-round.

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Most CPAs and tax professionals have a client or two that employs a domestic worker (i.e. nanny, senior caregiver, housekeeper, etc). It takes some additional work to keep these clients compliant because the forms, processes, deadlines and labor laws are

different for household employers than they are for commercial employers. Further,

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they work for. The Internet is rife with misinformation on this topic and many families mistakenly treat their employee as an independent contractor by foregoing the tax and payroll process and issuing a 1099 to their employee at tax time. This practice of worker misclassification is considered tax evasion and is being aggressively enforced by the IRS and Department of Labor.

**2. Talk about gross wages and net pay during the hiring process.** Many household employees have been paid under the table in past jobs. Compliance is becoming more prevalent, but it's still wise for families to help their employee understand how tax withholdings work and how much money will actually end up in their bank account each pay period after taxes. The family should run a few payroll scenarios to show their employee the difference between gross wages and net pay when they're negotiating their employee's wages. This helps set the expectations for both parties and eliminates bad surprises on the first payday.

**3. Emphasize the requirement for hourly pay and overtime.** The majority of your clients probably are salaried employees at their jobs, but household employees are classified in the Fair Labor Standards Act as non-exempt workers. This means they need to be paid an hourly rate. If the employee will work a set number of hours each week, your client may offer a weekly "salary," but it's important to translate this amount into an hourly rate in their compensation offer. This way any changes in their employee's hours can easily be calculated and their paystubs will accurately document the pay in terms of number of hours and hourly rate(s) of pay.

Since household employees are non-exempt workers, they also earn overtime for all hours they work over 40 in a 7-day workweek. Overtime pay must be at least 1.5 times the regular hourly rate and should be detailed in an employment contract as well as each paystub. The recent Domestic Worker Bill of Rights laws passed in California, Hawaii, Massachusetts and New York over the past few years have emphasized the right to overtime. With more household employees aware of their overtime rights,

it's paramount that your clients follow all labor laws to prevent any potential wage

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off for holidays, vacations or sick time to their household employee. However, it's an important benefit to provide because the most professional candidates won't work very long for a family that doesn't offer it. Additionally, some states and municipalities mandate paid time off or sick time, so it's important for your clients to have these details spelled out in their employment agreement.

**5. Tax filings can't wait until the last minute.** Your household clients can't wait until tax season to handle their employment obligations. The majority of states have tax filing deadlines throughout the year. On top of that, families should send estimated tax payments to the IRS four times per year to reduce the risk of underpayment penalties. Clients who wait until tax season to address these issues usually regret the decision because they find they have made numerous mistakes or omissions that are now much more costly and time-consuming.

Be prepared to answer more household employment questions than usual this year. The afore-mentioned Domestic Worker Bill of Rights is promoting compliance across the country – and many are listening. Additionally, most household employees will qualify for the federal health insurance subsidy, but they can't get it without having documented wages.

If you have any questions about helping families play “catch-up” on 2014 household employment taxes or proactively helping them prevent problems during future hires, feel free to leverage our resources and more than two decades of expertise in this area. When it comes to “nanny tax” obligations, we're here to help.

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*Tom Breedlove is Director of [Care.com HomePay](#), a provider of household employer payroll and tax services.*

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