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and Medicare taxes.

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If you hire domestic employees — or household employees — such as nannies, gardeners, or senior caretakers, you are required to pay and withhold social security and Medicare taxes.

You will have to obtain an Employer Identification Number (EIN) as well as [provide](#)

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Independent Contractors

Independent contractors differ from domestic employees. These include people like plumbers or repairmen who provide services to the general public. Independent contractors provide their own tools and control how they perform the work. On the other hand, you control who, what, when, where, and how a household employee performs their work. With this control comes the responsibility to correctly identify your employees and to pay the proper taxes.

This is important because independent contractors handle their taxes differently than employees. While an independent contractor receives a 1099 form at the end of the tax year, your domestic employees will receive a W-2. Independent contractors are responsible for 100% of their taxes, while domestic worker taxes are split between the employer and the employee.

Do not mistake a domestic employee for an independent contractor! Misclassifying workers can lead to fines and tax evasion charges.

Do Not Claim Your Employees in Your Business Tax Deductions

If you already own a business, [you cannot claim your domestic employees in your business tax deductions](#). The IRS says that since household employees aren't contributing members of your business, you must handle their wages through the personal tax process. It works this way because businesses are entitled to tax deductions on payroll expenses, but household workers aren't operating as part of your business.

You may only file their tax returns through your business if you own a sole

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Trying to get around this rule by offering a salary instead of an hourly wage is illegal, and you may face repercussions long after you terminate an employee. Employees can come to you and file a wage dispute, which means you'll be paying back wages, back taxes, penalties, and interest.

Establish a pay agreement that factors in overtime, and you shouldn't have a problem filing the proper amount of taxes come tax season.

If you agree to a salary amount that's based off over 40 hours per week, include overtime calculations in your employment agreement. For example, you might agree to pay your nanny \$550 per week for 50 hours of work. In your agreement, you would outline that you agree to pay \$10/hour with \$15/hour for overtime.

Don't Withhold Calculations From Your Employee

Like in the commercial world, employees are [entitled to view the details of their paycheck](#). For each payment period, household employees should receive a paycheck that itemizes hourly and overtime rates as well as the number of hours being paid for that period. You should also detail any deductions for Social Security, Medicare, and federal and state income taxes that you're withholding.

Don't Wait Until Tax Time to Address Taxes

If it's your first time hiring a domestic worker, you may feel like you're too busy to address tax issues upon hiring a new employee. However, if you wait until tax time,

there's a good chance you'll have already made several mistakes that your CPA has to

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track. However, this can get you both into big trouble. Whether you're leaving everything off the books or only a part of it, this is a big no-no. It can lead to [tax fraud charges](#). If your taxes go unpaid, you may face felony charges that will affect you for the rest of your life.

It's not as easy to get away with as you might think. For example, if you terminate a nanny and she later applies for unemployment, she may report the amount of money she actually made to maximize her benefits. If you kept portions of her income off the books, you've now been caught, and there's no statute of limitations to unpaid employment taxes.

Remember, you have to report the following as [household employee wages](#):

- Salary and bonuses
- Overtime
- Vacation and sick pay
- Taxes not withheld from paycheck
- Car allowances
- Gift cards
- Other cash benefits

Be honest, and keep detailed records, and you shouldn't have to face any fines or criminal charges in the future.

With these precautions in mind, you can approach domestic employee taxes the right way to avoid issues or disputes that may arise in the future. If you are confused or simply don't have the time to deal with these issues on your own, consult with a licensed attorney, or work with a payroll service to learn more about how to handle your personal situation.

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Webb is a magna cum laude graduate of Boston College. She is the former President of the International Nanny Association, the leading professional association in the in-home childcare industry.

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