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it relates to household employees, but first you must understand whether their household workers qualify as employees. The IRS defines a household employee as an ...

Laurie Savage • Dec. 13, 2018



In today's busy world it's not uncommon to outsource some household tasks to hired staff, including cleaning persons, nannies, home-health aides and more. Many

people employ household assistance, but many don't know that these workers may

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workers, workers hired through an agency or from a list provided by an agency or association, and workers on any pay schedule (whether it's hourly, daily, weekly, or by the job).

Once a person is identified as a household employee there are further considerations to determine if employment taxes must be paid:

- If, in 2018, a household compensated any one employee cash wages of \$2,100 or more, they must pay household employment taxes. This does not include wages paid to a spouse, any children younger than 21, parents in certain circumstances, or any employee younger than 18 at any time in 2018 (certain exceptions apply).
- The household must withhold and pay Social Security (SS) and Medicare taxes at 15.3 percent (12.4 percent SS and 2.9 percent Medicare) of cash wages (including check, money order, etc.). The employee's share is half the amount or 7.65 percent. The IRS notes that the employer can choose to pay it themselves and not withhold it, but then these amounts paid on behalf of the employee must be included in wages for income tax reported on the W-2 in box 1. The employer's share of Social Security and Medicare taxes is 7.65 percent. Any employee wages in 2018 over \$128,400 are not subject to Social Security. Keep in mind, if a household pays an employee in excess of \$200,000, they must withhold an additional 0.9 percent Medicare tax for wages in excess of \$200,000.
- The household must also pay a six percent federal unemployment tax if household employees earned total cash wages of \$1,000 or more in any calendar quarter of 2018. However, like other employers, they may be able to take a credit of up to 5.4 percent, percent resulting in a net tax rate of 0.6 percent. Wages over \$7,000 a year per employee aren't taxed. The household may also owe state unemployment tax.

Income tax:

- In general, taxable non-cash wages are not subject to employment taxes, but the

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well. Household employers may be required to have an employer identification number (EIN), which can be obtained by completing federal form [SS-4, Application for Employer Identification Number](#). Household employees must be eligible to work in the United States and the employer must verify each worker's identity and work authorization by completing a [Form I-9](#). The employee must complete Section 1 of the form no later than the first day of employment and the employer must complete Section 2 within three business days of the employee's first day of work.

You should also encourage your clients to maintain comprehensive records. This includes recording cash and non-cash wages, any federal income tax, Social Security tax, and/or employee Medicare tax withheld (or paid to the employee), and any state employment taxes withheld each and every payday, as well as Schedule H (reporting household employment taxes paid) and Form W-2 (stating the worker's annual wages, the taxes paid, and other related information). Some household employers may have the time and expertise to handle all the paperwork and requirements of the IRS tax code, but many don't. For those who may struggle, consider advising them to work with a reputable payroll outsourcing company to help make the process easier. Complete records will help you help your clients understand obligations and pay household employees to meet specific tax requirements.

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Laurie Savage is a compliance professional and subject matter expert on the Affordable Care Act (ACA) for [Paychex](#) Inc.

Payroll

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