

# Payroll Administration

*Home & Business Payroll: The IRS Requires Employers to Keep Their Books Separate*

*A Complimentary Resource from*  
**Breedlove & Associates**

© 2007-2008 Breedlove & Associates, L.P.

If you've hired a household employee and are thinking of including her on your company payroll, please think again. Although it may seem like a convenient way to comply with payroll and tax requirements – and possibly even offer company benefits – it is important to know that this practice is illegal and you would be exposing your business, as well as your personal finances, to unnecessary risk.

## **The Logic Behind the Law**

Businesses are allowed to take tax deductions on their company payroll. The logic is that employees are direct contributors to the success of the business and, therefore, business owners are allowed to take advantage of a “tax break” on a portion of their company payroll to help offset some of this significant expense. To be legally deductible, employee compensation must be an ordinary and necessary expense of the business.

The IRS has ruled that a household employee does not directly contribute to a business, making it illegal for a business to take any deductions on her payroll. A household employee is considered a contributing member of the household, not the family business. Therefore, employers are allowed to take a tax break for childcare expenses, but are not allowed to take a business deduction on the household employee's payroll.

You qualify for a *childcare tax break* rather than a *business tax break* because your household, not your business, incurs the payroll expense. Therefore, it is necessary for your household employee to be paid via your personal bank account not your business bank account.

## **Convenience and Savings Without the Risk**

Before running your household employee's payroll through your business, take a moment to consider that, if caught, your business and your household would be subjected to penalties, interest, and back taxes, as well as legal risk.

To maximize your tax breaks and minimize your risk, let our team of tax and labor law experts guide you through every step of the household payroll and tax process. Founded in 1992 – *by household employers for household employers* – we specialize in providing comprehensive yet cost-effective payroll and tax preparation services that help thousands of families in all 50 states avoid headaches, hassles, paperwork and legal risk.

**If you have any questions or would a complimentary phone consultation, please call us at 1-888-BREEDLOVE (273-3356). We're here to help.**

