

# Successful Financial Relationships

## A Step-by-Step Guide for Household Employers

A Complimentary Resource from  
**Breedlove & Associates**

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Understanding the components and requirements of household employment is critical for a successful placement and a solid long-term relationship. These 10 simple steps will help you create a win-win relationship for you and your employee.

### Step 1: Know your legal obligations

- You are a household employer if you pay an individual more than \$1,600 (2008) per year to perform duties in or around your home.
- You are required to pay federal and state employment taxes equal to approximately 10% of your employee's gross wages, but those tax costs can be largely – often entirely – offset by tax breaks. Taxes include:
  - Half of Social Security/Medicare (7.65%)
  - Federal and state unemployment insurance (usually 2-4% for most states)
  - Other state taxes (if applicable) such as Employment Training taxes

### Step 2: Know your employee's legal obligations

- Employees are required to pay taxes (approximately 15% - 20% of gross wages)
  - Half of Social Security/Medicare (7.65%)
  - Federal and state income taxes
  - Other state taxes (if applicable) such as Disability Insurance

### Step 3: Know your tax savings

Congress has enacted tax benefits for families with childcare expenses. These tax breaks can offset – sometimes exceed – your employer tax costs. You may take advantage of only one of these tax breaks:

- **Dependent Care Account:** Also known as the Flexible Spending Account. Most companies allow employees with childcare expenses to contribute up to \$5,000 of pretax earnings to a Dependent Care Account. The money in this account is then used to cover childcare expenses, free of taxes. Your tax savings are approximately \$2,300 per year.
- **Tax Credit:** If you don't have access to a DCA, you can claim the Tax Credit for Dependent Care (Form 2441) on your income tax return. This credit saves \$600 for one child; \$1,200 for two or more children.

### Step 4: Know employee benefits

Paying legally entitles your employee to the following benefits:

- **Employment History.** Required for car loans, student loans, home loans, credit card applications, etc. Without an employment history, your employee will be treated financially as though she doesn't exist.
- **Social Security/Medicare Benefits.** A typical household employee will receive \$5 in social security benefits for every \$1 in taxes withheld. This is a great investment – and a critically important one.
- **Unemployment insurance Benefits.** This state-managed fund provides financial support between jobs.
- **Earned Income Credit.** If an employee has a total household income of less than \$36,995 (2008) and has a child under the age of 19, they may qualify for the Earned Income Credit – eliminating most of the federal taxes owed.

### Step 5: Know how to cover “the extras”

- **Paid Time Off:** You are not required to provide paid vacation, holidays or sick time. However, paid vacation and holidays are common in this industry and may help you retain your employee. The number of paid days off should be specified in your contract. **Health Insurance:** Many families offer health insurance as a part of the salary package. These dollars are not considered taxable wages.
- Health insurance is a tax-free benefit to you and your household employee, as neither of you is required to pay taxes on these dollars.

- Overtime: Overtime must be paid at 1.5 times the hourly wage for all hours worked over 40 in a week, according to federal domestic law. The exception is Live-In employees, who typically do not need to be paid overtime, but must be paid for every hour worked.

### **Step 6: Know how to budget accurately**

The following steps will help you create a rough budget for wages and employer taxes:

1. Determine the gross weekly wage you would like to offer your employee (i.e. \$500/week or \$26,000/year).
2. Estimate your employer taxes by adding 10% to the gross wages (gross weekly wage is \$500 + \$50 for employer taxes = \$550 weekly cost of employment). This is your weekly employer cost *before tax breaks*.
3. Annualize your employer cost by multiplying the weekly cost by 52 (\$550 x 52 = \$28,600).
4. Determine your annual employer cost *after tax breaks* by subtracting your tax savings (roughly \$2,300 through the Dependent Care Account) from your annual employer cost (\$28,600 - \$2,300 = \$26,300 Total Annual Cost).

Please note that your **tax break virtually covers the additional expense of employer taxes!**

### **Step 7: Know gross wages versus net pay**

- Always offer a gross wage (before taxes) so that your employee understands the “market value” of her wages. But knowing net pay (after taxes) will help her budget. Our payroll calculator can be found at [www.breedlove-online.com](http://www.breedlove-online.com) or you can call us toll free at 1-888-BREEDLOVE (273-3356).

### **Step 8: Know that experts are available to assist you with salary negotiations**

Negotiating a successful salary package is one of the most important steps of the placement process. Please feel free to use our expertise. We are available to provide:

- Additional payroll scenarios
- Additional written information on the payroll and tax process
- Information for setting up your tax breaks
- Average salary information in your area
- Help with salary language in the contract
- Answers to any other questions you may have

### **Step 9: Know the compliance process**

- Register for federal and state tax accounts as a household employer.
- Complete and file New Hire Reporting.
- Identify and calculate the correct amount of federal and state taxes to withhold each pay period.
- Track gross wages, net pay and federal and state taxes withheld.
- Calculate and track employer federal and state taxes.
- Prepare state tax returns quarterly and remit employer and employee state employment taxes.
- Prepare federal tax estimates four times per year and remit employer and employee federal employment taxes.
- Prepare and remit federal and state year-end tax returns.
- Respond to IRS and state requests/inquiries.
- Monitor changes in household employment tax law

### **Step 10: Know that doing it right can be easy and affordable**

- Pay your household employee professionally
- Comply with the law
- Provide the employment benefits she deserves
- Have peace of mind
- Let us do all the work – our quarterly fees start at a little more than a dollar a day and are tax deductible

**If you have any questions or would like a complimentary consultation, please don't hesitate to call. We're here to help.**

