



Household Payroll

Quick Facts for Employers

1. Congratulations, you are an employer!

When you hire a nanny, senior caregiver, or housekeeper to provide services in your private home, you become an employer. As an employer you have payroll tax, insurance, and legal obligations. HWS has summarized your obligations below, and we are delighted to offer you a free telephone consultation with one of our household payroll experts to answer your questions.

2. HOUSEHOLD EMPLOYER tax obligations.

Household employers are required to collect and pay employment taxes when the annual wages paid will meet or exceed \$2,700 (2024). The employer's contribution to the employment taxes is approximately 10% of the employee's gross (before tax deductions) wage. It is comprised primarily of Social Security and Medicare taxes (7.65%) and unemployment taxes.

Good news! [Tax breaks](#) available for dependent care expenses will typically offset a portion of the employer taxes for household employment.

3. The EMPLOYEE'S tax obligations.

Your household employee's tax obligations will typically reduce the gross wage by 20 - 30%. Your employee will contribute 7.65% to Social Security and Medicare taxes - you are responsible to collect this tax via payroll deductions and to pay both portions to the IRS. If you fail to collect, you remain obligated to pay this tax. Your employee will generally also have Federal (and state if applicable) income tax obligations.

4. The compliance processes.

Many families find the process to be complicated and time consuming. A household employer must register with Federal and State taxing authorities to obtain tax ID numbers. You are also obligated to keep accurate and contemporaneous records of hours worked, payroll calculations and deductions. State employment taxes must be filed quarterly, and experts advise that you make quarterly federal tax payments. Additionally at the end of the year you will need to provide your employee(s) with a Form W-2 and will need to prepare and include a Schedule H with your annual Federal Form 1040.

5. Available employer tax breaks.

When you employ household staff to provide care to a dependent so you can work, you may become eligible for either a Dependent Care Account (monies are deducted from your payroll on a pre-tax basis to pay eligible expenses) or a Child Care Tax Credit. These strategies can reduce your taxes by \$600 - \$1440! These tax incentives are only available with legal payroll.

6. Employee benefits.

Paid time off requirements vary by state. Even though minimums may be required by state law, 2 - 3 weeks total paid time off is typical in the industry and experts agree that offering sick/personal/vacation time helps in employee retention. Many families find that contributing to employee health insurance, mass transit passes for commuting, and educational assistance makes their position more attractive to professional nannies and domestic staff. Best of all, qualified payments for health insurance, mass transit passes, and educational reimbursement may be tax free, providing tax savings to you and your employee. Make [Fringe Benefits](#) part of a total compensation arrangement.

7. Your employee benefits from being paid legally.

Nanny and senior caregiver positions, in particular, are transitory in nature - need for a full-time caregiver will inevitably end. Employees who are paid legally have verifiable income (important for car loans and mortgages), verifiable residence (important for in-state tuition qualification) and will be eligible for unemployment compensation payments between jobs, and eventually Social Security and Medicare payments in their old age.

8. Understand basic labor laws - protect yourself!

Household employees are covered by the Fair Labor Standards Act. Your household employee is non-exempt, which means they are paid hourly, *not* a true salary. Make sure your work agreement reflects this! Overtime at 1.5 times the hourly rate of pay is required for ALL live out employees for hours over 40 in a week, and some states include live in employees in overtime. Contemporaneous time tracking is a best practice. Most states require that you have a Workers' Compensation Insurance policy – HWS will help clients obtain this insurance.

9. Always offer the household worker a GROSS wage per hour.

Household employees are hourly wage workers under Federal law. A gross wage is the employee's earnings before any deductions. Some states require that you provide your household employee a pay rate notice with the hourly and overtime wage rates defined. This ensures that the employee knows her true pay rate, and helps you avoid unintended additional payroll and tax obligations. Your agreement should specify which taxes you will be deducting from the paycheck, and which the employee may be responsible for (income taxes for example).

10. Outsourcing to HWS provides important peace of mind.

Families nationwide, just like yours, turn to HWS to pay their nanny or caregiver and deal with all of the fine points of payroll tax compliance. This provides important peace of mind that a team of qualified household payroll experts have your back. Your compliance protects your family against back wage claims from a disgruntled former employee, provides your employee with unemployment benefits when the need arises, and ensures that you will not be knowingly submitting a false Federal income tax return! And if all this sounds like it is just "too much!" consider outsourcing some or all of the tax and payroll paperwork. We offer a variety of economical, tax-deductible service plans- one is sure to fit your needs.

HWS is here to help!

Our trained staff is available weekdays to provide free telephone consultations and to assist you with a variety of issues:

- Calculating gross vs. net wages.
- Budgeting your total out of pocket expense.
- Converting a weekly wage into hourly rate terms.
- Asking general questions related to wages, benefits, and labor law.

State Tip Sheets!

- [Household Employment Laws by State](#)