



*The Nanny's Taxes: Requirements & Total Compensation*

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2023

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- Worker Classification
- The “Nanny Tax” vs The Nanny’s Taxes
- Fair & Legal Pay
- Contracts & Compensation
  - Negotiating Points
  - Hourly vs Salary
  - Overtime
  - Total Compensation
- Resources

## Am I an Employee or a Contractor?

“The worker is your employee if you can control not only what work is done, but how it is done. If the worker is your employee, it does not matter whether the work is full time or part time or that you hired the worker through an agency or from a list provided by an agency or association. It also does not matter whether you pay the worker on an hourly, daily, or weekly basis, or by the job.”

-IRS Publication 926- Household Employer's Tax Guide

Is the NCS an employee or independent contractor?



[Newborn Care Specialists & Temporary Nannies](#)

## Who is NOT an employee?

“If only the worker can control how the work is done, the worker isn't your employee but is self-employed. A self-employed worker usually provides his or her own tools and offers services to the general public in an independent business. A worker who performs childcare services for you in his or her home generally isn't your employee. If an agency provides the worker and controls what work is done and how it is done, the worker isn't your employee”

-IRS Publication 926- Household Employer's Tax Guide

## Does the IRS offer additional guidance?

### Behavioral Control

- **When and where to do the work**
- What tools or equipment to use
- **What workers to hire or to assist with the work**
- Where to purchase supplies and services
- **What work must be performed by a specified individual**
- What order or sequence to follow
- Training given to the worker

Source: IRS Publication 15-A



# The “Nanny Tax”

Families are responsible for paying employment taxes and filing a Form W-2 annually if they meet the following:

- They have an employee
- They pay the individual \$2,600 or more in calendar year 2023\*
- The individual is 18 years or older, or household employment is the individual’s principal occupation
- The individual worker is not permitted to provide substitute workers without the prior approval of the family

\* State employment tax thresholds are between \$500 - \$1,000 paid in a calendar quarter.



## Federal Taxes

- FICA Tax

Tax	Employer Share	Employee Share	Total
Social Security	6.2%	6.2%	12.4%
Medicare	1.45	1.45%	2.9%
<b>Total</b>	<b>7.65%</b>	<b>7.65%</b>	<b>15.3%</b>

- Unemployment Tax
- Income Tax (Withholding Optional)

## State Taxes

- Unemployment Tax
- Various Supplemental Taxes
- Income Tax (Withholding Optional)

## Local Taxes



When an employment situation exists, the employing family:

- Pays 7.65% of gross pay for Social Security and Medicare taxes
- Collects 7.65% of gross pay from the Nanny for Nanny’s share of Social Security and Medicare
  - If the family fails to withhold this, they are legally liable to pay both parts of Social Security and Medicare to the IRS
- Pays BOTH Federal and State unemployment taxes.
- Pays for Workers’ Compensation & Disability Insurance where required.

# The Independent Contractor Option (only NCS)

## NCS Employee



Gross \$19200  
SS Tax **YOU** Pay \$1469  
Clear **\$17,731**

## NCS Contractor



Gross \$19200  
SS Tax **YOU** Pay \$2938  
Clear **\$16,262**

# The Nanny's Taxes

FICA Tax

Federal Income Tax

State Income Tax

Local Income Tax

*Paid Family Leave & Disability  
Insurance (in some states)*



## Why you should be paid “on the books”

It's the law

Unemployment Insurance

Social Security & Medicare

Workers Compensation Insurance

Proof of Income (Paystubs & W2)

Avoid Risk

**BECAUSE YOU DESERVE IT!!!**



“I don’t want to report income and pay taxes. I don’t want to become ineligible for \_\_\_\_\_.”

Failure to report your income is a felony offense. Commonly a household worker thinks they are agreeing to “under the table” income, then the family discovers they have reasons to declare the wages. Once those wages are declared, employees can be penalized for failure to report their own income and pay taxes.



## Negotiating Points

Scope of Work

Hours of Work

Compensation

Benefits

Healthcare?

Retirement?

Expense Reimbursement

Confidentiality Agreement

Termination Clause

**ALWAYS HAVE A SIGNED  
CONTRACT!!!**





## Overtime- Because you've earned it!!!

Exemptions for Live-In Employees (Some States)



Track your time!  
Notebook, App,  
timecard, etc.

Fact Sheet #79B: Live-in Domestic Workers  
Under the Fair Labor Standards Act (FLSA)



## Total Compensation

- Mileage Reimbursement: \$0.625/mile
- Healthcare Reimbursement:
  - QSEHRA: \$5,850/Year (2023)
  - ICHRA (no limit but less flexible)
- Mass Transit/Parking: \$300/Month (2023)
- Qualified Educational Assistance: \$5,250/Year (2023)
- Cell Phone – business use (think %)
- Retirement Contributions

What is already part of your budget that you could be tracking in a tax-free way?



## Retirement Contributions

- SEP IRA (set up and funded by employer only)
  - 0-25% of compensation, up to cap of \$66,000
- The Traditional or ROTH IRA
  - Can set up at brokerage firm or bank
  - Can be set up by either nanny or employer
  - \$6,500/yr (\$7,500 if you're age 50 or older)
- Simple IRA (employer matches contribution)
  - Subject to FICA but not Income Taxes
  - Up to 3% of nanny's compensation
- *401K – not really a viable option for household employers, given structure/set up*



[HWS Guide to Household Payroll](#)

[Newborn Care Specialists & Temporary Nannies](#)

[HWS State Tip Sheets](#)

[HWS Knowledge Center](#)

[QSEHRA Plan Template](#)

[How Can I Help My Nanny Build a Retirement](#)

[IRS Publication 926](#)

[Form 4852- Substitute for W2](#)





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