

A Guide for Household Employers



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Payroll & Retirement Plan Services for
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PAYCHEX[®]

Paychex Helps Household Employers

We help the employer apply for their federal employer identification number and state identification number(s).

We create paychecks for domestic employees after calculating the proper taxes to be withheld.

We provide payroll reports every pay period so that household employers can determine the federal tax liability to be deposited for the quarter. The employer reports and pays employment taxes with their annual Form 1040, Schedule H.

We prepare and file Forms W-2 and W-3. Paychex supplies the employer with W-2s for their employees.

We withhold state income tax from paychecks. We collect state income tax from the employer and deposit it. We collect state unemployment tax (if applicable) and deposit it quarterly.

We prepare and file all quarterly state returns (if applicable).

A Guide for Household Employers

Using this Booklet

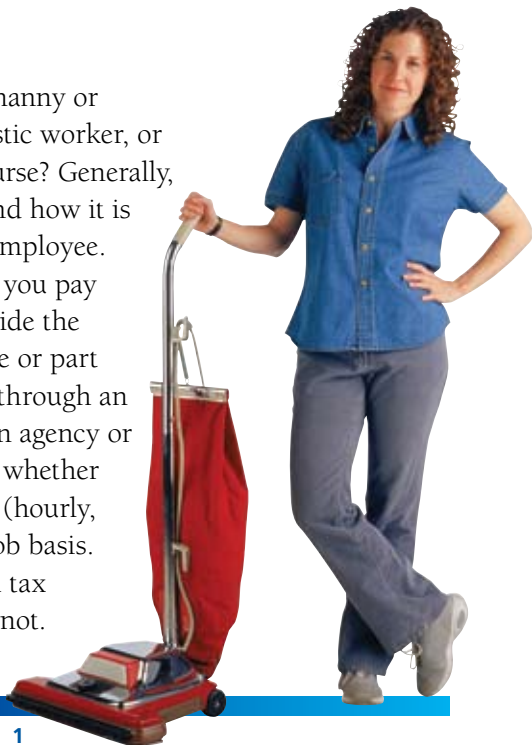
This publication is intended as a quick introduction to household employment, so many nuances and details are beyond its scope. For comprehensive information about this topic, refer to Internal Revenue Service Publication 926, Household Employer's Tax Guide and the related publications and resources provided by state agencies. Publication 926 can be downloaded at www.irs.com or obtained by calling 1-800-829-3676.

IRS Rules

Do you have household help? A nanny or babysitter? Cleaning person, domestic worker, or caretaker? Health aide or private nurse? Generally, if you control what work is done and how it is accomplished, the worker is your employee.

You are responsible, regardless if you pay in cash, if your employee lives outside the home, 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 by time period (hourly, daily, weekly, etc.) or on a by-the-job basis.

As an employer, you have certain tax responsibilities other taxpayers do not.



- You must pay Social Security, Medicare and unemployment insurance.
- You may withhold, at the employee's request, state and federal income tax.
- Depending on your state regulations, you may have to withhold state income tax and pay disability and workers' compensation.
- You are required to file certain paperwork with the appropriate government agencies and retain other documentation for review upon notice. A household employer's checklist has been provided at the end of this publication.

Household Employee or Independent Contractor?

As explained earlier, a worker who performs services that are subject to your will and control – as to both what must be done and how it must be done – is considered an employee. Independent contractors, on the other hand, determine for themselves how the work is to be done.

Here's an example provided by the Internal Revenue Service. "You made an agreement with John Peters to care for your lawn. John runs a lawn care business and offers his services to the general public. He provides his own tools and supplies, and he hires and pays any helpers he needs. Neither John nor his helpers are your household employees."

Employer Identification Number and Registrations

Employers must complete the following requirements:

- Obtain an employer identification number (EIN). This number is not the same as your social security number. Federal Form SS-4, Application for Employer Identification Number registers you with federal agencies. The form is available at the IRS or Social Security Administration Offices or online at www.irs.gov.
- Check with your state for the specific state application form.
- Verify your employees' citizenship. To hire or continue to employ an alien who cannot legally work in the United States is against the law. You must fill out and retain U.S. Citizenship and Immigration Services (USCIS) Form I-9, Employment Eligibility Verification Form (call 1-800-870-3676 or visit www.uscis.gov).

Employment Taxes

Federal taxes may need to be withheld and paid. The chart below, from IRS Publication 926, outlines the conditions.

Payments made by check or money order are examples of “cash wages.” This does not include the value of food, lodging, clothing, and other non-cash items unless they are given in lieu of cash.

IF you ...	THEN you need to ...
<p>A</p> <p>Pay cash wages of \$1,600 or more in 2008 to any one household employee. Do not count wages you pay to—</p> <ul style="list-style-type: none"> • Your spouse, • Your child under the age of 21, • Your parent (see Publication 926 for an exception), or • Any employee under the age of 18 at any time in 2008 (see Publication 926 for an exception). 	<p>Withhold and pay social security and Medicare taxes.</p> <ul style="list-style-type: none"> • The taxes are 15.3% of cash wages. • Your employee’s share is 7.65%. (You can choose to pay it yourself and not withhold it.) • Your share is a matching 7.65%.
<p>B</p> <p>Pay total cash wages of \$1,000 or more in any calendar quarter of 2007 or 2008 to household employees. Do not count wages you pay to —</p> <ul style="list-style-type: none"> • Your spouse, • Your child under the age of 21, or • Your parent. 	<p>Pay federal unemployment tax.</p> <ul style="list-style-type: none"> • The tax is usually 0.8% of cash wages. • Wages over \$7,000 a year per employee are not taxed. • You also may owe state unemployment tax.

Note: If neither A nor B above applies, you do not need to pay any federal employment taxes. But you may still need to pay state employment taxes. Source: IRS Publication 926

Federal Income Tax Withholding

Federal income tax withholding is optional on the part of the employer. You do not have to withhold income tax on wages paid to household employees unless the employee asks for it and you agree to it. Form W-4, Employee's Withholding Allowance Certificate, should be completed by the employee if you agree to withhold the tax. This will help you determine how much income tax to withhold.

Wages. Cash and non-cash wages are used to compute federal income tax withholding. The value of non-cash items is based on their fair market value. Exceptions are allowed under specific conditions for meals, lodging, transit passes or parking (or reimbursement for passes or parking). See IRS Publication 926 for details.

Tax paid without withholding.

Tax you paid for your employee without withholding it from the employee's wages:

- Must be included in the employee's wages for federal income tax purposes.
- Must be included in social security and Medicare wages.
- Must be included in federal unemployment (FUTA) wages.



State Requirements

States generally follow federal rules regarding domestic employees. There are exceptions, so refer to your state's laws.

- **State income tax.** This tax is withheld if the employee requests withholding and the employer agrees. See your state regulations for details.
- **State Unemployment Insurance (SUI).** Some states follow the federal rules for unemployment insurance reporting for domestic employees; however, some set their own. Check with your state for SUI reporting requirements.

- **State Disability Insurance.** In some states, individuals who hire domestic employees are required to contribute to a state disability insurance fund.
- **Workers' Compensation.** This insurance provides benefits to workers who become disabled due to a work-related accident or illness. Check your state laws regarding workers' compensation insurance. Some homeowners' policies may already provide disability coverage for domestic workers.

Advance payment of earned income credit (EIC)

Low-income individuals who support at least one dependent child are eligible for the earned income credit. Employers must make advance payments of the EIC to any eligible employee who requests it.

- Employers are responsible for notifying qualified employees about the advance for EIC being available even if no federal income tax is being withheld from the employees' wages.
- Form W-5, Earned Income Credit Advance Payment Certificate, should be completed by the employee and returned to the employer.



How Do You Make Tax Payments?

The following is a brief summary. For more information, refer to IRS Publication 505, Tax Withholding and Estimated Tax.

- When filing your federal income tax return, use Schedule H (Form 1040), Household Employment Taxes to figure your total household employment taxes (social security, Medicare, FUTA, and withheld federal income taxes). Add these household employment taxes to

your income tax. Attach Schedule H to your Form 1040. (See IRS Publication 926 for ways to pay enough tax during the year to cover your household employment taxes so additional taxes are not owed at year end.)

- If you want to make estimated tax payments to cover household employment taxes, get Form 1040-ES, Estimated Tax for Individuals. You can use its payment vouchers to make your payments by check or money order. You may be able to pay by Electronic Funds Withdrawal (EFW) or credit card.

If you did not pay enough income and household employment taxes during the year, you may be subject to the estimated tax underpayment penalty. See IRS Publication 505, Tax Withholding and Estimated Tax, for information about this penalty.

If you own a business as a sole proprietor or your home is on a farm operated for profit you can choose either of two ways to pay your household employment taxes.

- Pay with your federal income tax as previously described, or
- Include them with your federal employment tax deposits or other payments for your business or farm employees. For more information, see IRS Publication 15 (Circular E).



What Records Must You Keep?

Employers must keep employment tax records for at least 4 years after the due date of the return on which you report the taxes or the date the taxes were paid, whichever is later. Employers also must:

- Keep copies of Schedule H or other employment tax forms and related Forms W-2, W-3, W-4, and W-5.

- Keep records to support the information entered on the forms filed. If you must file Form W-2, you will need to keep a record of your employee's name, address, and social security number.
- Keep wage and tax records. Each payday, record the date and amounts of the following.
 - a) Employee cash and non-cash wages.
 - b) Any federal income tax you withhold.
 - c) Any employee social security tax you withhold or agree to pay for your employee.
 - d) Any employee Medicare tax you withhold or agree to pay for your employee.
 - e) Any advance EIC payments you make.
 - f) Any state employment taxes you withhold.
- Keep a record of your employee's name and social security number exactly as they appear on his or her social security card if you pay the employee either social security and Medicare wages above a threshold amount (refer to IRS Publication 926 for the threshold for the current year), or wages from which you withhold federal income tax.



Household Employer's Checklist

You may need to do the following
when you have a household employee:

When you hire a household employee:

- If you do not already have one, get an employer identification number (EIN), using Form SS-4.
- Determine if the employee can legally work in the United States (employee and employer complete Form I-9, Employee Eligibility Application).
- Find out if you need to pay state taxes. Where applicable, complete, file, and retain a state application for an identification number, state application for unemployment, and state employer withholding allowance certificate.

When you pay your household employee:

- Keep payroll and other records.
- Decide how you will make tax payments.
- Withhold and pay social security and Medicare taxes.
- Pay and report FUTA taxes.
- Withhold and pay federal income tax if requested. (Form W-4, Employee Withholding Allowance Certificate completed by employee).

- ❑ Withhold, pay, and report any applicable state responsibilities (for example, unemployment, state income tax, workers' compensation).
- ❑ Make advance payments of the earned income credit, if applicable.
- ❑ Prepare and provide your employee Copies B, C, and 2 of Form W-2, Wage and Tax Statement.
- ❑ Send Copy A of Form W-2, with transmittal Form W-3, to the Social Security Administration.
- ❑ File Schedule H (Form 1040), Household Employment Taxes, with your federal income tax return (Form 1040). If you do not have to file a return, use one of the other filing options, such as the option to file Schedule H by itself.
- ❑ If you choose to pay the household employment taxes with business or farm employment taxes, include the applicable employment taxes on Form 941 or 944 for your business. File Form W-2 for that employee with the Forms W-2 and Form W-3 for your business employees. Include the household FUTA tax on your Form 940.

This publication is designed to provide basic information about the subject matter covered. It is furnished with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional services. If legal advice or other expert service is required, the aid of a competent professional should be sought.

Payrolls for household employers, from the household name in payroll.

Paychex helps with compliance for:

- Federal employer identification number and state identification numbers.
- Paychecks.
- Payroll taxes.
- Forms W-2 and W-3.
- Applicable state unemployment taxes.
- Applicable quarterly state returns.

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