



The nanny tax: What household employers need to know

Hiring household help, whether you employ a nanny, housekeeper or gardener, can significantly ease the burden of childcare and daily chores. However, as a household employer, it's critical to understand your tax obligations, commonly called the "nanny tax." If you hire a household employee who isn't an independent contractor, you may be liable for federal income tax and other taxes (including state tax obligations).

If you employ a household worker, you aren't required to *withhold* federal income taxes from pay. But you can choose to withhold if the worker requests it. In that case, ask the worker to fill out a Form W-4. However, you may be required to withhold Social Security and Medicare (FICA) taxes and to pay federal unemployment (FUTA) tax.

2024 and 2025 thresholds

In 2024, you must withhold and pay FICA taxes if your household worker earns cash wages of \$2,700 or more (excluding the value of food and lodging). The Social Security Administration recently announced that this amount will increase to \$2,800 in 2025. If you reach the threshold, all the wages (not just the excess) are subject to FICA.

However, if a nanny is under age 18 and childcare isn't his or her principal occupation, you don't have to withhold FICA taxes. So, if you have a part-time student babysitter, there's no FICA tax liability.

Both an employer and a household worker may have FICA tax obligations. As an employer, you're responsible for withholding your worker's FICA share. In addition, you must pay a matching amount. FICA tax is divided between Social Security and Medicare. The Social Security tax rate is 6.2% for the employer and 6.2% for the worker (12.4% total). Medicare tax is 1.45% each for the employer and the worker (2.9% total).

If you want, you can pay your worker's share of Social Security and Medicare taxes. If you do, your payments aren't counted as additional cash wages for Social Security and Medicare purposes. However, your payments are treated as additional income to the worker for federal tax purposes, so you must include them as wages on the W-2 form that you must provide.

You also must pay FUTA tax if you pay \$1,000 or more in cash wages (excluding food and lodging) to your worker in any calendar quarter. FUTA tax applies to the first \$7,000 of wages paid and is only paid by the employer.

Making payments

You pay household worker obligations by increasing your quarterly estimated tax payments or increasing withholding from wages, rather than making an annual lump-sum payment.

As an employer of a household worker, you don't have to file employment tax returns, even if you're required to withhold or pay tax (unless you own your own business). Instead, employment taxes are reported on your tax return on Schedule H.

When you report the taxes on your return, include your employer identification number (EIN), which is not the same as your Social Security number. You must file Form SS-4 to get one.

However, if you own a business as a sole proprietor, you include the taxes for a household worker on the FUTA and FICA forms (940 and 941) you file for the business. And you use your sole proprietorship EIN to report the taxes.

Maintain detailed records

Keep related tax records for at least four years from the later of the due date of the return or the date the tax was paid. Records should include the worker's name, address, Social Security number, employment dates, amount of wages paid, taxes withheld and copies of forms filed.