



# Tax Researcher

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## HOUSEHOLD WORKERS — Who Should Be Reported?

Both the Internal Revenue Service (IRS) and the Social Security Administration provide information on the unique requirements of household employment. If you hire someone to work in your home, both you and your employee should know about paying Social Security and Medicare taxes

Your household employee may be eligible for Social Security and Medicare some day—if you deduct Social Security and Medicare taxes from his or her wages, pay the taxes to the IRS and report the wages to the Social Security Administration.

When you report those wages and pay the taxes, your employee gets credit toward Social Security benefits and Medicare coverage. This includes retirement (as early as age 62) and disability benefits for the worker and his or her dependents. It also includes survivor's benefits for his or her dependents when the worker dies

You have a household employee if you hired someone to do household work and that worker is your employee. 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.

Household work is work done in or around your home by the following people:

- Baby-sitters
- Cleaning people
- Drivers
- Housekeepers
- Nannies
- Health aides
- Private nurses
- Maids
- Caretakers
- Yard workers
- Similar domestic workers

### **Workers who are not your employees**

If only the worker can control how the work is done, the worker is not 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 child care services for you in his or her home generally is not your employee. If an agency provides the worker and controls what work is done and how it is done, the worker is not your employee.

## Example

You made an agreement with Tom Smith to care for your lawn. Tom 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 Tom nor his helpers are your household employees.

## What wages must be reported?

If you pay a household worker \$1,700 or more in cash wages during 2010, you must deduct Social Security and Medicare taxes and report the wages once a year. This includes reporting any cash you pay to cover the cost of the employee's transportation, meals or housing. If you do not report the wages on time, you may have to pay a penalty in addition to the overdue taxes.

## Are all household workers covered?

When you pay a household worker \$1,700 or more in cash wages during the year, the wages are covered by Social Security and Medicare. However, the wages paid to the following should not be counted even if they exceed \$1,700:

- Your spouse
- Your child under the age of 18
- Your parent, with certain exceptions
- An employee under the age of 18 at any time during the year unless providing household services is their primary occupation. If the employee is a student, providing household services is not considered to be their principal occupation.

## How to report wages

- **Keeping records**—For Social Security purposes, you need the names, addresses and Social Security numbers of all household workers and the amount of wages you paid them. Copy the Social Security number directly from each person's Social Security card. If one of your employees does not have a card, he or she should apply for one at any Social Security office.
- **Deductions for Social Security and Medicare taxes**—The 2010 Social Security tax rate, for both employees and employers, is 6.2 percent on wages up to \$106,800. The Medicare tax rate is 1.45 percent of all wages.
- **Deductions for Federal Income Tax**—You are not required to withhold federal income tax from your household employee's wages. However, you may do so if your employee requests you to do so.
- **Filing your report**—Use your own federal income tax return (IRS Form 1040 Schedule H) to report wages of \$1,700 or more that you paid a household worker. As the employer, you pay your share of the Social Security and Medicare taxes, along with the taxes you withheld from the employee's wages, when you file your return.
- **Submitting a W-2 after the year ends**—You must give your household employee copies B, C and 2 of IRS Form W-2 (Wage and Tax Statement) by January 31st after the year the wages were paid. Send copy A to the Social Security Administration by the last day of February.

## FLORIDA AND HAWAII STATE UNEMPLOYMENT INSURANCE TAXABLE WAGE BASE UPDATES

On 3/2/10 the state of Florida enacted legislation that delayed the 1/1/10 scheduled increase of the state's unemployment insurance taxable wage base from \$7,000 to \$8,500. Under the new law, the wage base will remain at \$7,000 until 1/1/12 when it increases to \$8,500.

On 3/11/10 Hawaii enacted legislation decreasing their taxable wage base from \$38,800 to \$34,900 effective 1/1/10.

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