

Seven Benefits of Nanny Tax Compliance

Employ your nanny and other household employees the right way. Here are nanny tax compliance benefits and protects you, your family and your employee.

1. Attract Higher Quality Candidates

When you hire a nanny or other household employee, you are bringing a professional on board. They expect the same benefits and protections of being paid legally afforded to those who work in an office, retail store, restaurant or other types of workplaces. By doing nanny taxes and payroll the right way, you will pick from a larger pool of qualified candidates and have a better chance of finding the right fit for your family. This is especially true now when household employees understand how legal pay provides a financial safety net during a health crisis.

2. Work with a Happier Employee

Your employee will appreciate the benefits and protections of being paid legally. They have a verifiable income and legal employment history when applying for a loan, credit card, or subsidy in the health insurance marketplace. Also, you and your employee will be paying into their Social Security and Medicare accounts. During the health crisis, they will have peace of mind knowing they can receive unemployment benefits if they lose their job. By treating them like a professional, they have higher job satisfaction. This leads to a happier family (especially the kids if you are hiring a nanny!) and an easier work relationship with your employee.

3. Gain Financial Protections

Workers' compensation insurance may be required for household employers in your state. The proper coverage ensures that some of your employee's medical costs and lost wages will be covered if they become ill or are injured on the job. Without it, your employee can sue you for lost wages if they are hurt on the job and you don't have the required coverage.

4. Avoid State and Federal Fines and Penalties

It is easy to get caught paying under the table. All it takes is your employee filing for unemployment after you part ways and listing you as their previous employer. They will be denied benefits and you will come under scrutiny for not paying the proper nanny taxes. Nannies and other household employees are among the millions out of work during the COVID-19 pandemic and filing for unemployment benefits whether or not they are eligible. Or, your employee is injured on the job and goes to the emergency room. When they are asked how it happened, they mentioned it was at work. The injury will be reported to your state's workers' compensation board, which means you will receive a hefty fine because you are non-compliant and do not carry the required insurance coverage.

5. Reduce the Risk of an Audit

Once the federal government realizes you have not been compliant with nanny taxes, your chances of being audited skyrocket. The audit could just be a hassle if you are not hiding anything else. However, you will likely need to pay back taxes or a fine for paying your nanny "off the books." According to The Motley Fool, failing to pay nanny taxes can cost on average \$25,000 in penalties and interest.

6. Take Advantage of Tax Savings

Your employer's Dependent Care Flexible Spending Account (FSA) and the federal Child and Dependent Care Tax Credit can cover some of the qualified expenses associated with being a household employer.

7. Enjoy Peace of Mind

All of these benefits lead to one major advantage ... peace of mind. You will have a solid relationship with your employee and financial protections. You will not have to concern yourself with fines, penalties, audits, or lawsuits. Even if you are audited for an unrelated matter, you will not have to worry about nanny taxes raising red flags.

We're here to help in your nanny tax compliance. Call us at (800) 929-9213 for a complimentary, no-obligation consultation with a household employment expert.