



Tax Considerations for Household Employers

If you hire someone to work in or around your home, you will need to know what federal and state taxes apply and what reporting forms may be required.

You may have to pay federal employment taxes in certain cases, but you will not have to withhold federal income tax from your household employees' wages (although you and the employee can agree to do so). There are three federal employment taxes that household employers (parents) may have to pay for their domestic workers – Social Security, Medicare and unemployment taxes. Collectively, these are often referred to as the nanny tax. In addition, you will need to comply with the requirements of the state where you live, which may include state unemployment taxes. Required federal tax reporting forms and state unemployment agency contact information are included below.

IRS Guidance on Household Employees (originally titled Official Government Guidance)

The Internal Revenue Service provides extensive information regarding household employers and related tax implications. These guides offer the most current, official information and are regularly updated. IRS guidance and guidelines can change often. The three most commonly used publications are:

- [Household Employer's Tax Guide](#)
- [Employer's Tax Guide \(Circular E\)](#)
- [Tax Withholding and Estimated Tax](#)

The IRS defines a "household employee" as a worker you pay who: 1) is an employee (you control what work the worker performs and how it is carried out), and 2) does household work (including in-home child care). Under the IRS definition, an in-home child care provider would most likely be a household employee.

Regardless of the type of employee, you will be subject to employment taxes if you paid an employee more than certain amounts per quarter or tax year as set forth below. 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 if you pay the worker by the job. Even if employees are only employed for a short time, their wages still could still exceed a tax threshold. As stated above, if your employee is a household employee, you do not need to also withhold income tax (although your employee and you may agree to do so).

If you have a household employee, you will likely need to do the following:

- Withhold and/or pay federal Social Security and Medicare taxes, or FICA
- Pay the federal unemployment tax, or FUTA
- File appropriate federal reporting forms



- Comply with federal labor laws (such as the Federal Fair Labor Standards Act which mandates payment of a minimum wage, among other requirements)
- Comply with state requirements (which may include paying state unemployment taxes, filing appropriate state reporting forms and following state labor laws)

Social Security and Medicare taxes, or FICA

Employers, employees and self-employed persons are required to pay federal taxes that finance Social Security and Medicare benefits. The Social Security tax pays for Old Age, Survivors and Disability Insurance, or OASDI, benefits for workers and their families. The Medicare tax pays for hospital insurance. Together, these taxes are known as FICA taxes.

If you pay \$2,300 or more to any one household employee in 2021 (this amount may change in future years), then you must pay Social Security and Medicare taxes:

- These taxes are 15.3% of wages.
- Your employee's share is 7.65% (equal to 50% of the tax).
- Your share is a matching 7.65% (making up the remaining 50% of the tax).

You may withhold the employee's share from each payment of their wages or choose to pay the entire FICA tax yourself. If you pay your employee's share of Social Security and Medicare taxes from your own funds, the amount you pay for your employee's tax counts as wages for the purposes of the employees' income tax. However, they do not count as Social Security and Medicare wages or as wages for federal unemployment tax.

You will incur a penalty if your wage withholding plus estimated taxes in a year do not cover a sufficient proportion of your tax liability for the year (including your own income taxes plus any employment taxes you owe). To avoid this, you can simply increase your withholding on any wages you earn. Alternatively, you can make estimated tax payments to cover household employment taxes using Form 1040-ES. You can use its payment vouchers to make your payments by check or money order. Estimated tax payments can also be made online using credit or debit cards and several electronic payment methods. For details, see the form instructions [or visit the IRS website](#).

Federal unemployment tax, or FUTA

If you have a household employee, you may also have to pay the federal unemployment tax, which is commonly referred to as FUTA.

If you pay total wages of \$1,000 or more in any calendar quarter of the current year or previous year to household employees:

- You must pay FUTA.
- The tax is usually 0.8% of wages.
- Only the first \$7,000 in wages per employee per year are subject to FUTA.

Again, if you pay wages to all your household employees totaling \$1,000 or more in any calendar quarter, you will need to pay FUTA. Calendar quarters are defined as January through March, April through June, July through September or October through December. The first \$7,000 of wages you pay to each household employee for the year is FUTA wages. If your employee's wages exceed \$7,000 during the year, FUTA does not apply to any additional wages you pay that employee during the rest of the year.

Optional federal income tax withholding

You are not required to withhold federal income tax from wages you pay to a household employee. You should withhold federal income tax only if your household employee asks you to withhold it and you agree. However, if you do not withhold income taxes, your household employee will likely have to pay quarterly estimated taxes, and some household employees prefer having taxes withheld to having to file and pay quarterly estimated taxes. If you agree to withhold federal income tax, you are responsible for paying it to the IRS. For more information about withholding federal income tax, see [IRS Publication 15](#).

State unemployment tax, reporting forms, labor laws and other requirements

Depending on where you live, there may be state unemployment taxes that you must pay. To find out whether you will owe state unemployment tax, [contact your state's unemployment tax agency](#). A list of state unemployment tax agencies is available on the U.S. Department of Labor's website. Your state may also require specific filings and have labor laws that you must follow. Your state's labor laws may include minimum wage, overtime, employee labor law posters (to be posted



in the workplace), mileage reimbursement, paid leave and/or workers' compensation requirements.

Required federal tax reporting forms

I-9 (Employment Eligibility Verification)

- If you hire a household employee to work for you on a regular basis, you and the employee must complete [U.S. Customs and Immigration Service, or USCIS, Form I-9, Employment Eligibility Verification](#). You must also examine the necessary identification documents. Although you do not submit the form to the U.S. Customs and Immigration Service, the IRS or any other agency, you must keep the form available for review upon notice by an authorized U.S. government official.

SS-4 (Application for Employer Identification Number)

- You must include your employer identification number on the forms you file for your household employee. You can get an EIN by telephone, by mail or [online](#).

W-4 (Employee's Withholding Certificate)

- If you agree to withhold federal income tax from your employee's wages, the employee must complete [Form W-4](#).

Schedule H (Household Employment Taxes)

- Use [Schedule H](#) of your federal income tax return to report household employment taxes. Schedule H is required if you are subject to FICA or FUTA taxes, or if you pay wages from which you withheld federal income tax. After completing Schedule H, carry your total household employment taxes figure over to the Household Employment Taxes line of your federal [Form 1040](#).

W-2 (Wage and Tax Statement)

- If you are subject to FICA taxes or withhold federal income tax from your employee's wages, you must file a [Form W-2 \(Wage and Tax Statement\)](#) for your employee. Complete Form W-2 and give Copies B, C and 2 to your employee by the required due date. You must send Copy A of Form W-2 along with Form W-3 to the Social Security Administration by the required due date.

W-3 (Transmittal of Wage and Tax Statements)

- If you file one or more W-2 forms, you must also file [Form W-3](#) with the Social Security Administration by the required due date.

Helpful need-to-know information for service members relative to nanny services and taxes

- Service members employing a nanny must meet IRS/state requirements for tax withholdings.
- W-2 income is taxed in the nanny's state of residence.
- Military spouses employed as nannies and receiving W-2s for wages can meet the Military Spouses Residency Relief Act/Veterans Benefits and Transition Act exemption for taxes in the non-resident state.
- In unusual circumstances, if child care providers are legally incorporated or formally operating their own businesses for which they advertise services regularly to a variety of clients, those providers might possibly be considered self-employed. A variety of special rules apply to self-employed providers, including the need to issue a [Form 1099-NEC for nonemployee compensation](#). Nannies issued a 1099-NEC are considered self-employed or contractors for tax purposes; 1099-NEC income is assessed tax on the return for federal, Self-Employment and Medicare. 1099-NEC income is considered a source income in the state it was earned; child care providers must pay income tax on that income on their personal federal income tax returns as well as pay self-employment tax (which covers Social Security and Medicare).

Have a question or need help starting?

MilTax consultants are specially trained to help with unique tax situations specific to service members and their families. MilTax consultants are available year-round, Monday through Friday from 8 a.m. to 10 p.m. Eastern Time, with extended hours of operation between January and April. Call 800-342-9647, start a [live chat](#) or visit the Military OneSource website for [more information about MilTax](#) and eligibility requirements.

The information in this document is provided for informational purposes only and is not intended to and must not be taken as a substitute for obtaining accounting, tax, legal or other professional advice from a tax resolution professional (e.g., an enrolled agent, CPA, attorney, etc.). We recommend that prior to acting upon this information you first seek the service of a tax resolution professional.