

Hiring Family in the Family Business Can Cut Taxes

We provide tax planning strategies for individuals and businesses. If you are interested in a tax planning evaluation for your circumstances, please contact our office to schedule an appointment. Below is a strategy applicable to many businesses, particularly during the summer months.

As the summertime school vacation season approaches, young family members may be looking for a job - and having a hard time finding one. Hire them in your family business, and you get a double benefit: helping the kids gain valuable experience and garnering tax breaks for your company.

Here's what you need to know.

Whether your sole proprietorship business operates around the kitchen table or in the fields of your farm, wages you pay your under-age-18 children are not subject to social security, Medicare, or federal unemployment taxes. Note: You will have to pay social security and Medicare taxes when your children are age 18 or older. They are exempt from federal unemployment taxes until they reach age 21.

Wages you pay your children are deductible from your business income, meaning potential savings for the business on self-employment tax and federal and state income tax. The wages must be paid for legitimate work at a reasonable rate. Be aware of nontax issues too, such as your state's youth employment rules, which can be more stringent than federal labor laws. If your business is a family farm, keep apprised of newly proposed regulations that may limit the parental exemption for employing young farm workers.

Wages do not impact "kiddie tax" calculations. In addition, your child can earn up to \$6,200 of income during 2014 before owing federal income tax. The payroll tax exemption is different from the self-employment rules, and applies to wages you report on Form W-2 at year-end. Income earned as contract labor, which is generally reported on Form 1099-MISC, is subject to self-employment tax.

Call us if you have questions about the tax consequences of employing family members.