

Checklist for hiring your minor child

You can save money on your taxes by hiring your minor children. For tax year 2016, your child under 18 can earn up to \$6,300 working in your business before any tax needs to be paid on the earned income. This can be increased to \$11,800 if a \$5,500 traditional IRA is purchased. While your child earns tax-free income, you save tax dollars by deducting the wages paid. In the 25% tax bracket, for example, \$2,950 in Federal tax plus self-employment tax of \$1667 is saved by paying a wage of \$11,800 to your minor child (combined with the \$5500 traditional IRA contribution).



Rules to follow:

To take advantage of these savings, make sure you take the following steps to prove you are entitled to the deduction:

- The work must actually be done.
- The work must be related to your business.
- The child must be capable of doing the work.
- The amount paid for the work being done must be reasonable.
- The amount must be distinguishable from an allowance.
- You must keep careful written records of the payments made and duties performed and file all of the necessary paperwork as described below.

Necessary paperwork:

- **Make a written employment agreement** between your business and your child containing description of services, amount and timing of compensation. Have all parties sign.
- **Obtain a Federal Employment Identification number.** You can register at irs.gov. Make sure you check the box that your tax liability will be under \$1,000 to be an annual filer.
- **Obtain a state employer identification number.**
- **Verify compliance with immigration laws** by keeping a signed Form I-9 on file.,
- **Have each child file Form W-4** and indicate the child is exempt from withholding on line 7 if you are planning to pay the child under \$6,300. Keep the W-4 on file.
- **Keep time cards on file with hours worked.** Your children under 18 are exempt from FICA and Medicare. So you will not have to deduct any withholdings. Remember to pay them at regular, timely intervals, and keep a daily list of duties performed.
- **File a quarterly Federal withholding return** if you did not elect to be an annual filer.
- **File a state withholding report** if it is required by your state.
- At the end of the year, **file forms W-2 and W-3** for your employees.
- **File an annual Federal unemployment return** on Form 940 indicating your child is exempt on line 2.