

DO YOU OWE THE NANNY TAX?

The tax law can jump up and bite you in unexpected places. One example of that is the nanny tax.

Do you have a household employee such as a nanny, a caregiver for an elderly relative who moved in with you during the pandemic, or a live-in housekeeper?

You may have hired somebody to help out during difficult circumstances caused by the COVID-19 mess.

Maybe that was a temporary arrangement, or maybe it has turned into a permanent one. In either case, the dreaded nanny tax issue may be in play.

The nanny tax refers to your duty to withhold and deposit a household employee's share of Social Security and Medicare taxes on wages paid to the employee and also to deposit the employer's share of those taxes.

First, let's clarify who can *potentially* count as a household employee. According to IRS Publication 926, Household Employer's Tax Guide, household employees are individuals who do household work—such as performing as a nanny, caretaker, private nurse, babysitter, housekeeper, maid, driver, or butler. Household work includes only performing services in or around your private home.

According to IRS Publication 926, a person who does household work is your employee if you control not only what work is done but also how the work is done. So, if a worker regularly comes to your home on a schedule dictated by you and is supervised by you, the worker is probably an employee.

It doesn't matter whether the work is full time or part time, or whether you hired the worker through an agency. But if an agency supplies the worker and controls what work is done and how it's done, the worker is not your employee.

Yard care workers, pool service guys, maids, and the like who provide services to the general public and just show up at your place periodically to go about their business are not your employees.

For 2021, the FICA tax issue arises only if you pay a household employee \$2,300 or more during the year.

The nanny tax rules are complicated, and complying with them can be a time-consuming nuisance.