

Checklist for hiring your minor child

You can save money on your taxes by hiring your minor children. For tax year 2023, your child under 18 can earn up to \$13,850 working in your business before any federal tax needs to be paid on the earned income. The amount can be increased to \$20,350 if a \$6,500 tradition IRS is funded in the child's name for tax year 2023.

While your child earns tax-free income, you save tax dollars by deducting the wages paid. For example, if the business owner is in the 22% tax bracket then \$4,477 in Federal tax plus self-employment tax of \$2,876 is saved by hiring your minor child.

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 the document.
- **Obtain a Federal EIN** if you have not already done so. You can register at IRS.Gov or contact our office to help you. If you filing on your own and only for the purpose of paying your minor children wages, please be sure to 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 \$13,850. 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 thr 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.
- **File a state reconciliation of tax withheld** if required.