



## **Hire Your Kids with Uncle Sam's Money**

By Rhonda K. Johnson, Enrolled Agent (Page 180)

*Use the following worksheet to ensure you are maximizing a benefit for diverting taxable income through paying your children.*

### **Words of Wisdom**

Hiring your kids to work in your business not only increases your family's purchasing power, your children will gain independence, learn business values and feel good about being a part of your family business.

### **Playing to Win**

To qualify for home-based business tax deductions and employ your children, you need to meet a few criteria: You must...

- operate a legitimate business;
- demonstrate intent to produce a profit;
- show consistent work activity;
- document business income, expenses, and activities involved;
- hire one or more of your children who are between 7 and 18 years of age (or up to age 23 if they are in college and are dependents);
- pay wages that approximate what you would pay an outside contractor to perform the same duties;
- pay wages to the child using an actual business check; and
- deposit their check into a separate interest-bearing custodial account.

*These deposited wages do not have to remain in the account. The money may be paid back into the business in part or in its entirety.*

Your family employee can perform any of the tasks your business needs in order to function, such as:

- |  |   |
|--|---|
| <input type="checkbox"/> Janitorial services | <input type="checkbox"/> Stuffing envelopes   |
| <input type="checkbox"/> Daycare             | <input type="checkbox"/> Washing cars         |
| <input type="checkbox"/> Answering phones    | <input type="checkbox"/> Stocking merchandise |
| <input type="checkbox"/> Data entry          | <input type="checkbox"/> Packing and shipping |
| <input type="checkbox"/> Distributing flyers |   |

*It's always a good idea to consult with an enrolled agent or other tax expert to ensure you comply with current regulations.*

**To properly document the existence of family employees, you must have the following items in place.**

- formal employment agreement for family members;
- work log of hours and activities for each family employee;
- separate bank account for each employee;
- formal payroll system with quarterly and annual reports, including W-2s;
- state employment number (some states have a minimal fee for a business license and a minimal tax when quarterly taxes are filed);
- documentation demonstrating consistent business operation; and
- evidence of paychecks issued at least once a month.

### **Recommendations From Rhonda**

Employing your children can teach them valuable life lessons, get them to willingly help you with the family business, free up time for you to pursue that business, and help the whole family have more purchasing power. What are you waiting for?

1. Make the decision to maximize the tax benefits your business affords you by committing to take the steps necessary to hire your kids.
2. Make a list of age-appropriate tasks your children can perform within your business and then hold a family meeting and explain that they are now "officially" a part of your business.
3. Set aside one hour today or tomorrow to begin to collect the necessary documentation and continue to invest an hour a few times a week until all elements are in place.