

TAX TIME – Are YOU Legal?

Taxes. The filing deadline is right around the corner (April 15th). Are you properly prepared? Does your employer give you a W-2 form? Do you file as self employed or as a household employee? Has your boss been withholding taxes throughout the year? Nannies often bring in higher salaries than any other segment of the childcare industry – daycare, in-home childcare, and sometimes even teaching. Yet each of these positions is “on the books”. Make sure that you are, too!

What To Know About Being Legal

By Stephanie Breedlove (exerts from her article)

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You are not an independent contractor

When the family you work for controls what work is done and how it is done, you are a household employee. When you can control how the work is done, you are an independent contractor. An independent contractor usually provides her own tools and offers services to the general public. Working for a family as a nanny, household manager, cook, caregiver, etc. means that you are a household employee. Why is that important? As a household employee, your employer is responsible for withholding your taxes from your pay and remitting them to the tax agencies throughout the year – hassle-free for you. In addition, your employer is required to pay taxes over and above your salary. Independent contractors are considered self-employed and are responsible for all taxes as both employee and employer.

You have legal obligations

Employee taxes are withheld from gross wages and usually range from 17%-23% of gross wages. Employee tax withholdings include: Half of Social Security/Medicare (7.65%), Federal and State income taxes, Other state taxes (if applicable) such as Disability Insurance.

You have employment benefits

The benefits of being legal are numerous, and you really can't afford to be without them. As a professional, you should expect nothing less. Once you take a look at the benefits, you'll agree that being legal is the way to go!

Employment History

Being legal creates an employment history that is critical to daily life. If your employment is not documented, it is as if you do not work. An employment history is required for a car loan, a mortgage, a student loan, a credit card application, a health insurance application, an auto insurance application, future job applications, and the list goes on...

Unemployment Insurance

When paid legally, you are entitled to receive approximately 50% of your salary for up to six months if you lose your job due to no fault of your own. This benefit is free to you, as your employer pays the cost of the program.

Social Security/Medicare Benefits

For many, taking advantage of these benefits is years away, but consider these tax withholdings as a good investment.

The compliance process:

1. Your employer will register for federal and state tax accounts as a household employer.
2. Your employer must calculate the correct amount of federal and state taxes to with hold each pay period.
3. Your employer must calculate and track employer federal and state taxes. Note: Your employer pays employment taxes in addition to your salary. These equal about 10% of you gross wages.
4. Your employer must prepare federal tax estimates four times per year and remit employer and employee federal employment taxes.
5. Your employer must prepare state tax returns quarterly and remit employer and employee state employment taxes.
6. Your employer must prepare federal and state year-end tax returns. These returns include you W-2. You are entitled to copies of all tax returns filed throughout the year.
7. **You must prepare and file annual federal and state income tax returns.**

Being legal is not only the law, it also provides great benefits. You should receive the benefits due to you as a professional nanny!

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Stephanie Breedlove is a TCPN Business member.
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