

EMPLOYING A FAMILY MEMBER

A way to reduce the overall family tax bill is by employing family members to work in your business by shifting income to them and providing them with employment benefits.

- **Employing your Spouse.** Reasonable wages paid to your spouse entitles you to a business deduction. Although the wages are subject to both income and FICA taxes, your spouse may qualify for Social Security benefits to which he or she might not otherwise be entitled. In addition, your spouse may also be entitled to receive coverage under the qualified retirement and health plans of your business, allowing you to obtain business deductions for contributions to your spouse's retirement plan and health insurance premium payments made on behalf of your employed spouse. While maintaining the same family medical care coverage, you increase your business deductions by providing your spouse with health insurance coverage as an employee.
- **Employing your Child.** The income tax advantages of employing your child include obtaining a business deduction for a reasonable salary paid to that child. You thus reduce your self-employment income and self-employment tax by shifting income to the child. Since the salary paid to your child is considered earned income, it is not subject to the "Kiddie Tax" rules that apply to children under age 19 (or age 23 if a full-time student). For 2018 the standard deduction for your dependent child is \$350 plus the amount of earned income, maximizing at \$12,000. If your business is unincorporated, wages paid to your child under age 18 are not subject to social security taxes. Not only are there significant income tax advantages to employing your child, but you may provide him or her with fringe benefits such as group-term life insurance and qualified pension plan contributions.

Your child may also make deductible contributions to a Traditional IRA of the lesser of earned income or the annual limitation. These contributions can offset both earned and unearned income. If the child otherwise has no income tax liability, you can contribute to a ROTH instead, up to the annual limitation. In addition, if your child does not want to use his or her earned income to fund an IRA or a ROTH, you can make him or her a gift of the money needed for funding.

Please keep in mind that when you employ a family member in your business, the wages should be reasonable for the work performed and that the services performed are necessary to the business.

If we can assist you with information about payroll tax filings, please give us a call.