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The Big-Time Benefits Of Hiring Your Kids

One of the biggest benefits of running a family business is being able to employ your minor children. By hiring your kids, you have the opportunity to teach them the value of hard work, give them experience managing money, and support them to save for their future.

In return, you get employees who have a built-in sense of commitment, teamwork, and loyalty that can't be found anywhere else. This sense of loyalty and dedication is why so many business owners like to claim that their team is "just like family."

On top of that, employing your minor children also comes with some substantial tax-saving benefits. And with the passage of the Tax Cuts and Jobs Act (TCJA) in 2017, those benefits are now better than ever.

Earn Up to \$12,000 Tax Free

Starting in 2018, the TCJA practically doubled the standard deduction, which increased from \$6,300 to \$12,000. This means your children will pay zero federal income tax on anything they earn up to \$12,000. This alone can save you thousands each year.

And even if your kids do earn more than \$12,000 for the year, they will pay taxes at the reduced rates established by the TCJA, so they'll still be reducing your family's tax bill. Plus, you can deduct their salaries as a business expense, reducing your taxable income even further.

But there are even more savings to be had. Depending on your business structure, you may be able to save serious money on your child's payroll taxes, too.

Payroll Tax Exemption

If your business is a sole proprietorship, a married couple partnership, a single-member LLC taxed as a sole proprietorship, or an LLC taxed as a married couple partnership, you might not be required to withhold or pay any Social Security and Medicare tax (FICA) or federal unemployment tax (FUTA) on your kid's wages.

This payroll tax exemption applies to parents who employ their children for either part-time or full-time work. The FICA exemption covers those kids under age 18, while the FUTA exemption

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lasts until they reach 21. This exemption can be used to shift some of the income from your own tax rate to your child's rate, which is most likely significantly lower than yours.

Alternatives For Corporations

If your business is set up as an S or C corporation, you don't qualify for the payroll tax exemption. However, there are ways to get around this restriction by using some creative—yet totally legal—tax strategies.

For example, instead of paying your kids directly from your corporation, you can create a family management company and pay them from that business. By setting up this new company as a sole proprietorship separate from your primary business and paying your children from it, you won't have to withhold payroll taxes.

If you own an S or C corporation, meet with us, as your Family Business Lawyer™, to learn more about such creative tax-saving strategies.

Remain In Compliance

With such significant savings on the table, it's inevitable that some people will try to abuse these provisions by claiming the benefits without having their kids do any legitimate work, or by vastly inflating their wages. To prevent this, the IRS requires your children to meet a few criteria in order to qualify for these tax benefits:

- They must perform legitimate work appropriate to their age and skill set.
- Their work must exceed the normal household chores they already do.
- They must be paid the going rate for their services and not be over-compensated.
- Good records must be kept, including filing W-2s.
- Their services, work conditions, and hours must be in compliance with federal and state child-labor laws.

Consider that your children can get paid to be models in your advertising, stuff mailers for you, or when they are old enough, even learn how to field incoming phone calls for your business or manage your social media. With creativity, there is a vast array of work your children can do in your business.

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If you employ your kids (or want to do so), meet with us to ensure you're doing everything by the book, and your business isn't in danger of attracting unwanted attention from the IRS.

Maximize Your Tax Savings

With these new benefits, there's never been a better time to put your kids to work in the family business. That said, hiring your children is just one way you can reduce your yearly tax bill—there are numerous other tax-saving opportunities you might not be aware of. Consult us, your Family Business Lawyer™ to make sure you don't miss out on a single one.

This article is a service of [name], Family Business Lawyer™. We offer a complete spectrum of legal services for businesses and can help you make the wisest choices on how to deal with your business throughout life and in the event of your death. We also offer a LIFT Start-Up Session™ or a LIFT Audit for an ongoing business, which includes a review of all the legal, financial, and tax systems you need for your business. Call us today to schedule.

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