



SAEED & LITTLE
ATTORNEYS AT LAW

Putting Your Kids On The Payroll Can Benefit Your Business AND Help You Save Big Money On Your Taxes

Paying your children—whether they’re tweens, teens, or young adults—to work for your company is one of the greatest advantages of running a family business. By hiring your kids, you can help them develop a strong work ethic, give them experience managing money, and jumpstart their ability to save for their future while keeping more wealth in your family. In return, you get employees who have a built-in sense of commitment, teamwork, loyalty, and you may even end up with a long-term succession plan. This sense of dedication is why so many business owners like to claim that their team is “just like family.”

On top of those benefits, hiring your kids also comes with some significant tax-saving benefits as well. And with the passage of the Tax Cuts and Jobs Act (TCJA), those tax benefits are now even greater than ever before. That said, if you do hire your kids, make sure they do legitimate work and you pay them reasonable wages. Otherwise, you may attract unwanted attention from the IRS. More on this below:

Their First \$12,550 Worth of Earnings Are Tax Free

The TCJA nearly doubled the standard deduction, which increased from \$6,300 to \$12,550 starting in 2018. This means your children will pay zero federal income tax on anything they earn up to \$12,550. This tax break alone can save you thousands each year, and applies to both minors and those kids over age 18.

Even if your kids do earn more than \$12,550 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, as with other employees, you can deduct your child’s salary as a business expense, reducing your taxable income even further.

Even if your child earns less than \$12,550 for the year, you should still have them file a tax return, especially if they are over age 18. Teaching them to file a tax return not only gives them experience managing their finances, but it also allows them to start establishing a credit history. 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 husband-wife partnership, a single-member LLC taxed as a sole proprietorship, or an LLC taxed as a husband-wife 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 parents who employ kids under age 18, while the FUTA exemption lasts until they reach 21. This exemption can be used to shift some of the

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income from your own tax rate to your child's rate, which is most likely significantly lower than yours.

Work-Arounds 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 100% 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, your business lawyer, to learn more about the different work-arounds that allow you to pay your kids in your business and still save on your taxes.

Stay In Compliance With The IRS

With such hefty savings on the table, it's inevitable that some people will try to abuse these provisions by claiming the tax savings without having their kids do any actual 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.

There are numerous different jobs your kids can handle for you, which can not only give them valuable work experience, but also provide your business with much needed support. If you are going to pay your kids, at least make them earn it. Here are a few jobs your kids can take over for your business.

- Serve as models in your advertising
- Answer incoming calls
- Cleaning your office
- Washing company cars
- Updating customer lists
- Stuffing mailers and making trips to the post office

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- Updating your company's social media posts

If you employ your kids (or want to do so), meet with us, your local family business lawyer 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 Company's Tax Savings

With such significant tax savings available, there's never been a better time to put your kids to work in the family business. However, 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 with us, your family business lawyer, to make sure you don't miss out on a single one.

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