

Hiring Your Child Tax Strategy

REDUCE INCOME TAX BY
EMPLOYING YOUR CHILDREN



After all you do for your children, make them pay you back with tax savings! Hiring your minor children can add up to some significant tax savings.

The standard deduction is the amount an individual pays no income tax on. For 2019 this amount is \$12,200. Pay each of your children this amount, deduct as a business expense, and they don't have to pay federal income tax on it! Don't forget to check with your state income taxes, but often your children are going to be in a lower tax bracket there as well.

As an added bonus, if you pay your business taxes as a Sole Proprietor (Schedule C), those wages are exempt from federal payroll taxes (e.g. FICA), until they're 21. Sweet! Even if you are a corporation or partnership, the payroll taxes generally are going to lower than your income tax rate.

The compensation must be for legitimate work and the wages must be reasonable. Make sure that you keep good records, including time records, and make sure you pay them on a W-2. If you're not already filing payroll tax forms, you will have to do that as well.

For real extra credit, take that money you pay them and invest it in a ROTH IRA. They will thank you later with all of that tax free income!

ACTION ITEMS AND NEXT STEPS



- Determine what work for compensation your children can do for your business.
- Make sure you compensate them a reasonable amount.
- File the applicable payroll tax reports and give them a W-2.
- Take some of that compensation and put it in a ROTH IRA for future tax-free dollars.