A nanny is considered a household employee if, according to the IRS, you control not only what work is done, but also how that work is done. These criteria apply regardless of number of hours worked per week or duration of the nanny’s contract/time worked for you. If the nanny is deemed to be your employee, that makes you a household employer. As a household employer, you may be subject to household employment taxes.

For 2020, household employment (Social Security and Medicare) taxes kick in when you pay your household employee $2,200 or more in cash wages in one calendar year. Federal unemployment tax must be paid if you pay $1,000 or more in cash wages in any calendar quarter. The state side varies. In Iowa, you will incur a state unemployment tax liability if you pay $1,000 or more to your employee in one calendar quarter.

Household employment taxes can be broken down into two pieces:

* Employer-paid taxes: Social Security & Medicare, Federal Unemployment Tax, State Unemployment Tax
* Taxes withheld from the employee: Social Security & Medicare, Federal Withholding, State Withholding

The following are the household employer’s responsibilities:

* Apply for an Employer Identification Number (EIN) from the IRS
* Apply for a state taxpayer ID number for state withholding purposes
* Apply for a state unemployment account
* Calculate and pay wages on the agreed-upon schedule
* File and pay quarterly state withholding and state unemployment returns with the appropriate agencies
* Pay quarterly federal 1040 estimated payments
* At the end of the calendar year, provide your nanny with a Form W-2 and file Form W-2/W-3 with the Social Security Administration
* File Schedule H with your personal 1040 federal return

Prior to employment, your nanny should complete the following forms:

* Form I-9
* Federal Form W-4
* State Form W-4

Additionally, it is recommended that you consult with your insurance agent as you may be required by state law to carry worker’s compensation insurance.

If all of this sounds confusing and overwhelming, the accounting professionals at Tunink Murray Financial Group can help. Give our office a call today at 515-223-1255.