

MONEY TALKS

Last-Minute Nanny Tax Filing Tips

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If you're a working mom and you have private child care, you may be procrastinating on filing your taxes because you're not sure how to classify your caregiver. If so, read on.

By Lela Nargi

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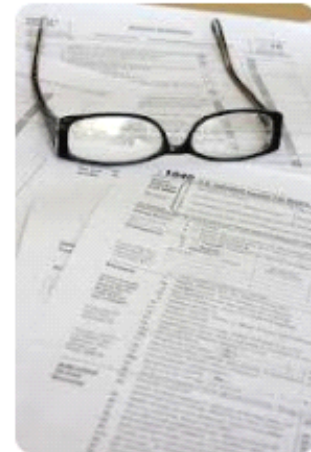
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Maybe you're one of those organized types who's already compiled and filed your taxes and sent off your payment or (lucky you) received a refund. But if you're stalling because you've hired a nanny and don't know how to file for this, Stephanie Breedlove, Vice President of [care.com/homepay](#), has crucial advice for you.

The central issue is how you'll classify your children's caregiver. Bottom line: Get her on the books! If you paid her more than \$1800 in 2013, it's not only the law, it also allows her to build a credit history and save for her retirement.



"The majority of working mothers who have child care in the home have no idea that they're considered an employer and are responsible for withholding and administering payroll and tax processes on her behalf," says Breedlove.

But even now, it may not be too late to make this legal. The process is time-consuming, but there are specialized services that can help you take care of the entire year's worth of requirements in a week and file with both the State and the IRS by the April 15 deadline.

Don't want to pay a service, but know this will mean filing late and getting hit with a penalty? A well-crafted letter explaining your situation—that you're late because you want to be in compliance with the law—will 95 percent of the time result in the waiving of the penalty. "If you inform them that you're trying to do the right thing, they have mercy," says Breedlove.

Still not convinced you should comply? If guilt on behalf of your nanny doesn't tip the scales, consider the benefit to you: a tax incentive—namely, the Dependent Care Tax Credit (form 2441), which allows you to deduct \$600 for one child, \$1200 for two or more. It's too late for 2013, but if you enroll now in a Flexible Spending Account (FSA), you'll be eligible for a \$2000 savings for 2014.

There are other tax benefits to you that come from getting your nanny on the record. You can reimburse her for expenses she incurs that are directly related to her job (cell phone, extra insurance to cover your kids if she drives them in her car) and they won't be considered taxable income. Or, if she's a student, you can contribute up to \$5000 a year to her education and it's tax-free to both of you.

What *not* to do as you file this year: put your nanny on your personal business payroll—which is flat-out illegal. Also, don't classify your caregiver as an independent contractor. "The Fair Labor Standards Act is very specific that people who work in the care industry are employees of the families they work for," explains Breedlove. "The IRS has been cracking down on folks filing this way." Fair warning!