



Tax Rules of Hiring a Caregiver

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The tax rules surrounding the employment of a caregiver can be confusing--not to mention costly if a mistake is made.

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"People are likely to make more mistakes than get things right in this area," says Stephanie Breedlove, vice president of Care.com HomePay. "There's just not enough awareness in the marketplace. When a family hires a caregiver, there are payroll and tax requirements."

According to industry experts, one of the biggest mistakes people make when hiring a caregiver is assuming they don't have to pay taxes if they pay the hire in cash. However, if a caregiver earns more than \$750 a quarter or more than \$1,900 a year, the IRS considers that person a household employee, and taxes must be paid accordingly.

"Once [the caregiver] hits that threshold, you have to register [the hire] and report employee wages and withhold part of his/her income," says Mike Townsend, co-founder of HomeHero.com.

Experts say failure to pay the right taxes can raise red flags at the IRS and result in fines and penalties.

"The IRS says it takes 50 to 55 hours a year for the payroll process and people don't want to deal with that," says Breedlove. It doesn't help that experts say paying the proper taxes for a caregiver costs an extra 10% of the caregiver's wages each year. "Paying legally can increase the cost, but if you pay legally you are entitled to tax breaks," says Breedlove. "The tax breaks usually offset the majority if not all of that extra expense."

Another common tax-filing mistake is improperly classifying the caregiver as an independent contractor, which would push the tax burden on to the employee. According to Breedlove, in order for someone to qualify as an independent contractor the person has to control the entire work environment, including when and how to work.

For example, a web designer that completes clients' work at his or her own discretion could be classified as an independent contractor. A caregiver, on the other hand, has to work in the client's home at employer-specified times, classifying the person an employee.

"If a family classifies the caregiver as an independent contractor and doesn't withhold taxes and they are caught, they will be held accountable for all the back taxes, penalties and interest," warns Breedlove. "Incorrectly classifying household employees as independent contractors is a big problem in America right now."

Another common mistake many families make is thinking they can sort out all the taxes and paperwork right before tax day. Not only does waiting until the last minute create numerous hours of gathering and filing the proper paperwork, but it can also set the family up for a bigger tax bill than expected. Make tax planning a priority and something that happens through the year to avoid the end-of-season rush.

Caregivers are also entitled to over time, and if families decide to forgo paying it, they could face a lawsuit and owe a big sum of money in back pay. Experts say all household employees--whether it's a nanny or caregiver--that works more than 40 hours a week must be paid time and a half in overtime under federal law for the extra hours. "In today's tight economy, we've seen that become a more common dispute," says Breedlove. "It's the No.1 way to unravel the relationship."

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