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## *Tax & Business Alert – July 2025*

**Abstract:** The name “nanny tax” can be misleading. It’s a tax that applies to the wages of a variety of types of household help, such as a nanny, gardener or housekeeper. Unless the worker is an independent contractor, taxpayers who hire household help may be liable for federal payroll tax and other taxes (including state tax obligations).

### **You may owe the “nanny tax” even without a nanny**

Don’t let the name “nanny tax” fool you. It’s a tax that applies to the wages of a variety of types of household help you hire — such as a nanny, gardener or housekeeper. Hiring extra help can ease the burden of home-related tasks, especially in the summer when the kids are home or the garden needs attention. Unless the worker is an independent contractor, you may be liable for federal payroll tax and other taxes (including state tax obligations).

### **Where the line is drawn in 2025**

In 2025, you must withhold and pay Social Security and Medicare (FICA) taxes if your household worker earns cash wages of \$2,800 or more (excluding the value of food and lodging). If you reach that threshold, all the wages (not just the excess) are subject to FICA taxes.

However, if a nanny is under age 18 and child care isn’t his or her principal occupation, you don’t have to withhold FICA taxes. So, if you have a part-time, student babysitter, there’s no FICA tax liability.

Both the employer and the household worker must pay FICA tax. As the employer, you’re responsible for *withholding* your worker’s FICA share from his or her wages. You’re also responsible for *paying* a matching amount. Specifically, you each pay 6.2% for Social Security, for a total of 12.4%. For Medicare, you each pay 1.45%, for a total of 2.9%.

You can choose to pay your worker’s share of Social Security and Medicare taxes. If you do, your payments aren’t counted as additional cash wages for Social Security and Medicare purposes. But they are treated as additional income to the worker for federal tax purposes. So you must include them as wages when you provide the worker’s W-2 form for the year.

You also generally must pay federal unemployment (FUTA) tax if you pay \$1,000 or more in cash wages (excluding food and lodging) to your worker in any calendar quarter. FUTA tax applies to the first \$7,000 of wages paid and is only paid by the employer.

You aren’t required to withhold federal income taxes from a household worker’s pay. But you can choose to withhold if the worker requests it. In that case, have them fill out a Form W-4.

### **How to pay the tax due**

You pay household worker obligations by increasing your quarterly estimated tax payments or increasing withholding from your wages, rather than by making an annual lump-sum payment.

As an employer of a household worker, you don't have to file employment tax returns, even if you're required to withhold or pay tax (unless you own your own business). Instead, employment taxes are reported on your individual income tax return on Schedule H.

When you report the taxes on your return, include your Employer Identification Number (EIN), which isn't the same as your Social Security number. You must file Form SS-4 to get one.

However, if you own a business as a sole proprietor, you are able to include the taxes for a household worker on the FUTA and FICA forms (940 and 941) you file for the business. Note, however, that keeping the reporting separate may be preferred from a record-keeping perspective.

### **What records to keep and for how long**

Keep related tax records for at least four years from the later of the due date of the return or the date the tax was paid. Records should include the worker's name, address, Social Security number, employment dates, amount of wages paid, taxes withheld and copies of forms filed.

We can help with questions about how to comply.

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