

Checklist: How Business Owners Can Hire Their Kids

Created by Nick Garofalo | Openhanded Wealth

What to Know

- **Why hire your kids?**
 - Save on taxes: Kids' wages are deductible.
 - Teach valuable skills and work ethic.
 - Keep money in the family.
- **Tax Savings:**
 - **FICA Tax Exemption:** Wages paid to children under 18 are exempt from Social Security and Medicare taxes, but **only if your business is a sole proprietorship or a partnership owned solely by the parents.**
 - LLCs and S-Corps **do not** qualify for this exemption.
 - Their income is often taxed at lower rates or not at all if under the standard deduction.
- **Key Rules:**
 - Must perform legitimate & necessary work.
 - Pay reasonable wages for their age & the job.
 - Document everything to ensure compliance.

Getting Started

1. Confirm Eligibility:

- Sole proprietors and partnerships (spouses only) benefit most.
- Ensure your business profits support paying wages.

2. Set Up Payroll:

- Open a business checking account.
- Help your kids open their own checking accounts for direct deposit.
- Create a payroll system to ensure accurate paychecks and record-keeping.

Things to Watch Out For

Labor Laws

- Follow state and federal child labor laws.
- Certain tasks may be restricted for kids under 18.

Mixing Family and Business

- Treat your child like any other employee to maintain professionalism.

IRS Red Flags

- Unreasonable pay for the job.
- Missing documentation (e.g., hours worked, payment records).

Step-by-Step Guide

1. Define the Job:

- a. Choose age-appropriate tasks (e.g., filing, cleaning, social media).
- b. Write a simple job description.

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3. Establish Pay:

- a. Research fair market rates for similar work.
- b. Keep pay reasonable to avoid IRS scrutiny.

4. Create an Employment Agreement:

- a. Outline duties, hours, and pay clearly.
- b. Have both you and your child sign.

5. Track Hours Worked:

- a. Use a simple timesheet or time-tracking app.
- b. Ensure accurate recordkeeping.

6. Pay Their Wages:

- a. Issue regular paychecks from the business account.
- b. Avoid cash payments to keep clear records.

7. File Taxes Appropriately:

- a. Report wages on W-2 forms.
- b. Ensure they file a tax return if income exceeds the standard deduction.

8. Help Your Kids Manage Their Money:

- a. **Fun Money:** Let them enjoy 10-25% of their earnings to reward their hard work.
- b. **Giving:** Teach the value of generosity by setting aside 10% for tithing, church, missions, or charity.
- c. **Roth IRA:** Open a Roth IRA in their name and contribute the maximum allowable for the year (based on their earned income).
- d. **Invest the Rest:** Open a brokerage account and guide them in investing the remainder to grow long-term wealth.

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