

Tax Benefits of Child Wages

By Chaney Zeisler, CPA

We often get asked by parents how they can pay their children for work performed on a farm, ranch, or small business. Paying child wages is a great way to pay your kids that offers tax benefits. Here's what you need to know:

- Child wages are deductible to the parents as a business expense, but the child pays no federal income tax.
- Children under the age of 18 are eligible for child wages.
- You can pay each child up to \$12,950 tax free in 2022. By staying under this "standard deduction" limit, the child does not have to file a tax return or pay any tax on this income (assuming they have no other income).
- Sole proprietorships, single-member LLCs, and partnerships where both parents are the only partners/owners of the business are not required to pay Social Security or Medicare (FICA) taxes when employing a child. Corporations, including S corporations, are not allowed to do this.
- A W-2 needs to be issued for the child wages paid—which we can handle for you at year end. We often see parents issue their child a 1099—this is not recommended as the child will owe social security/medicare tax on this income.
- The wages must be reasonable for the work performed. The child must be doing legitimate work and being paid a reasonable rate. You must be able to justify that the child is qualified to perform the work claimed.
- You also need to keep records of the hours worked and work performed just like you would for any other employee.
- Pay your child throughout the year rather than just paying them a lump sum at one time of the year.

In summary, it's very tax smart to hire your kids. Everyone's tax situation is always a little different, so please contact us to help you determine the right course of action for your business and your family.

Thanks,

Chaney Zeisler, CPA

This message and any attached documents may contain sensitive information from Kaup's Financial Advisors, Inc. or Kaup's Tax Advisors. The information is intended only for the use of the individual or entity named above. If the reader of this message is not the intended recipient, or an employee or agent responsible for the delivery of this message to the intended recipient, the reader is hereby notified that any dissemination, distribution or copying of this message or of any attached documents, or the taking of any action or omission to take any action in reliance on the contents of this message or of any attached documents, is strictly prohibited. If you have received this communication in error, please notify the sender by e-mail or telephone, at 800-933-3607, and delete the original message immediately. It is the responsibility of the addressee to scan this mail and any attachments for computer viruses or other defects. The sender does not accept liability for any loss or damage of any nature, however caused, which may result directly or indirectly from this email or any file attached. Thank you.

Treasury Department Circular 230 Disclosure: To ensure compliance with the regulations imposed by the Treasury Department, you are hereby informed that any federal tax advice contained in this communication is not intended or written to be used and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction, plan or matter addressed herein.

The advice contained in the communication is intended solely to inform you of the state of the tax law and is not an opinion of Kaup's Financial Advisors, Inc. or Kaup's Tax Advisors for purposes of 31 C.F.R. Part 10, commonly referred to as "Circular 230". As such, you may not rely on the information contained herein for the purpose of avoiding tax penalties.

Registered Representative with Cetera Advisor Networks LLC, member FINRA/SIPC. Cetera is under separate ownership from any other named entity.

Tax services offered by Kaup's Tax Advisors PC. Tax services offered separately from Cetera Advisor Networks LLC, which does not provide tax or legal advice.