

Want a Tax Break – Hire Your Kid

by Annie Fischer

If you run a farm, ranch or small business you probably already have your kids doing all kinds of work for you. Did you know that you can actually be paying your kids a wage and deducting it on your farm or business to save taxes? Here are the benefits of it:

1. Any wages paid to a child under 18 are exempt from all payroll taxes if you are a sole-proprietor. You will need to file a W-2 for your child, but we can take care of that for you.
2. The child can be paid up to the standard deduction of \$6,350 and not pay any income taxes on that first \$6,350. This includes all wages earned for the year, so if they have a different outside job you would need to consider those wages, too. The first \$6,350 would be taxed at zero and the next \$2,975 would be taxed at only 10%.
3. For your benefit, you get a business write-off for money you probably are already paying to your child.
4. You will be saving federal income tax, self-employment tax, and state income tax.
5. Now your child has earned income and can be eligible to do a Roth IRA contribution.
6. This can also help your child develop work ethic and the value of money.

There are a few guidelines:

1. 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.
2. You also need to keep records of the hours worked and work performed just like you would for any other employee. So, it works best for kids that can be

assigned meaningful duties. You don't want to pay a 6-year-old \$6,000 for the year, but it is reasonable to pay a 12-17 year old up to the standard deduction of \$6,350.

3. Do not just pay your child a lump sum at the beginning of the year or end of the year. For example, pay them once a month and since they would be in school, pay them more in the summer versus outside summer months.

Bottom line – If you have children and run a farm or business it is a no-brainer to hire them. We have seen this strategy save our clients thousands of dollars in taxes.

Everyone's tax situation is always a little different, so please contact us to help you identify the right course of action for your business and your family.

Thanks,

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Income Tax Preparer