

Hire your children to save taxes for your business and your family



It can be difficult in the current job market for students and recent graduates to find summer or full-time jobs. If you're a business owner with children in this situation, you may be able to provide them with valuable experience and income while generating tax savings for both your business and your family overall.

Shifting income

By shifting some of your business earnings to a child as wages for services performed by him or her, you can turn some of your high-taxed income into tax-free or low-taxed income. For your business to deduct the wages as a business expense, the work done by the child must be legitimate and the child's wages must be reasonable.

Here's an example of how this works: A business owner operating as a sole proprietor is in the 39.6% tax bracket. He hires his 17-year-old son to help with office work full-time during the summer and part-time into the fall. The son earns \$6,100 during the year and doesn't have any other earnings.

The business owner saves \$2,415.60 (39.6% of \$6,100) in income taxes at no tax cost to his son, who can use his \$6,350 standard deduction (for 2017) to completely shelter his earnings. The business owner can save an additional \$2,178 in taxes if he keeps his son on the payroll longer and pays him an additional \$5,500. The son can shelter the additional income from tax by making a tax-deductible contribution to his own IRA.

Family taxes will be cut even if the employee-child's earnings exceed his or her standard deduction and IRA deduction. That's because the unsheltered earnings will be taxed to the child beginning at a rate of 10% instead of being taxed at the parent's higher rate.

Saving employment taxes

If your business isn't incorporated or a partnership that includes nonparent partners, you might also save some employment tax dollars. Services performed by a child *under age 18* while employed by a parent aren't considered employment for FICA tax purposes. And a similar exemption applies for federal unemployment tax (FUTA) purposes. It exempts earnings paid to a child *under age 21* while employed by his or her parent.

Please contact Ceschini, CPAs at (631) 474-9400 for more information about this topic and other tax and business developments – such as new IRS regulations and court decisions.