



Numeric Strategies, LLC

Tax, Accounting & Financial Solutions

Certified Public Accountants

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Re: 2014 Planning: Home and Domestic Service Workers

Dear Clients:

FOR PERSONS WHO PAID DOMESTIC WORKERS

Your family may need outside assistance to provide care and supervision for your children or elderly parents while you work. You may hire cleaning help or a landscaper to assist with the upkeep of your home, or someone to walk your dog during the work week. These lifestyle choices simplify your daily routine, but there are rules you must follow when compensating your domestic workers. We can help you determine what your responsibilities are with respect to your workers, and ensure that you comply with the payment and reporting rules that apply to your situation.

For instance, understanding the difference between an employee and an independent contractor is very important. If you are an employer, you are required to withhold and contribute a matching amount of FICA and Medicare taxes from your domestic worker's income. However, if your workers are independent contractors, you are only required to report payments of \$600 or more on a Form 1099-MISC, Miscellaneous Income. Failing to make the right classification could cost you money.

Alternatively, if you incur qualified expenses on behalf of a child under age 13, or a disabled spouse or dependent, you may be able to claim a child and dependent care tax credit. The credit that can be claimed ranges from 20 to 35 percent of qualified employment-related expenses, but is subject to a cap which is calculated as a percentage of these expenses. The maximum amount of eligible expenses is \$3,000 if you have one qualifying dependent and \$6,000 if you have two or more qualifying dependents.

FOR PERSONS WHO RECEIVED DOMESTIC SERVICES PAY

You may be considered a domestic services worker if you perform household duties as part of your daily work routine. Generally, services performed by cooks, waiters, babysitters, butlers, housekeepers, maids, valets, caretakers, handymen, chauffeurs, and companions are considered domestic services.

However, you may be performing these services as an employee rather than an independent contractor, and this distinction could be very important in determining how to report your income, and pay your employment and income taxes. Generally, the right to control how duties are executed and what tasks are performed is sufficient to make a worker an employee.

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For example, if you are a babysitter in the parents' home, you are probably a domestic employee. If you earn \$1,900 or more in 2014, your employer is required to withhold FICA and Medicare taxes from your income, and you must contribute an equal amount of FICA and Medicare taxes.

Subject to certain limitations, your employer may also be required to pay federal unemployment tax (FUTA), but is not obliged to withhold income taxes unless there is a mutual agreement to do so. However, you are liable for federal and state income tax on your earnings, and may be required to make quarterly estimated tax payments.

Conversely, if you watch children in your own home, you are most likely an independent contractor. Your clients must report your remuneration of \$600 or more on a Form 1099-MISC, Miscellaneous Income. Your income is subject to self-employment and income tax, and along with any related business expenses, should be reported on Form 1040, Schedule C. However, since your business expenses are not reported on Form 1040, Schedule A, they are not limited to the 2% of adjusted gross income (AGI) threshold.

In light of these rule, we feel that it would be beneficial persons hiring domestic workers as well as those working in a domestic setting determine your status and review your overall tax plan. If you would like to discuss these rules further, please contact our office at your earliest convenience to make an appointment.

Sincerely yours,

Jackie Spegele