



# Domestic Employee Payroll: What You Need for Tax Time

When does an individual qualify as a domestic employee? This is an issue that is often misunderstood, and can potentially result in a scenario whereby a household is actually an employer without even realizing it. Many families believe that only full-time employees count for tax purposes. With the new year underway, households should consider consulting with their tax and financial advisors to make sure they are properly tracking, paying for and insuring their household help.

While it may make sense to analyze this thoroughly with a trusted advisor, below are a few factors to consider. This list is not all inclusive and more information may be needed before a conclusion is reached to determine whether a person is an employee or an independent contractor.

**Determine who qualifies as a household employee:** There may be many people doing work for a family, but that doesn't mean that they are employees. As a general rule, if the household can control what work is being done as well as how it is done, then that worker may be considered an employee. Typical examples are nannies, housekeepers, drivers and chefs. If the worker provides his or her own tools and offers similar services to the general public as part of a regular trade or business, he or she may not qualify as a domestic employee. Typical examples of non-employees or independent contractors are landscapers or home health care companies. Depending on what the conclusion is, there are vastly different requirements and next steps.

**Setting up payroll taxes for employees:** If it is determined that a household has domestic employees, payroll taxes will need to be paid. Depending on the circumstances, the employer may need to apply for a new employer identification number (EIN). The employee will have to complete certain paperwork, including a Form W-4 and I-9. The employer will need to register with the IRS and/or the applicable state for payroll and unemployment taxes. Depending on the state, there may be monthly, quarterly or annual filings due and taxes may be remitted at various intervals as well.

**Understand insurance needs:** When employing domestic workers, it may be required by law or simply recommended to obtain certain insurance coverages (workers' compensation, disability, and employment practices liability insurance). Requirements vary by state and may depend on the number of workers employed or the hours worked. Regardless of the jurisdictional requirements, employers may want to have these extra insurance coverages in place for added liability protection in the unfortunate event that a worker becomes injured on-site or some other type of issue occurs.

Because of the tax, compliance, insurance and other complexities involved with becoming a domestic employer, it is important to maintain detailed records and consult with a tax professional before making any final decisions. For more information or to discuss this topic in greater detail, contact your Anchin Relationship Partner or Jeffrey Schwartz, a director in Anchin Private Client, at [info@anchin.com](mailto:info@anchin.com) or 212.840.3456.



**Jared Feldman, CPA**  
Leader  
[jared.feldman@anchin.com](mailto:jared.feldman@anchin.com)



**Mela Garber, CDFA**  
Tax Leader  
[mela.garber@anchin.com](mailto:mela.garber@anchin.com)

**1375 Broadway, New York, NY 10018 • 212.840.3456 • [www.anchinprivateclient.com](http://www.anchinprivateclient.com)**

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