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It's a Family Affair

How to Hire Your Kids - Legally!

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You've probably started, or are at least thinking about starting a home business because you desperately need more income. Sound familiar? Have you ever felt guilty, conflicted, or totally frustrated by your inability to keep up with the incessant demands of your children for what appears to be the endless acquisition of more "stuff". Things they just absolutely, positively have to acquire or they will just die. Haven't we all been there? If I could show you a way to teach some valuable life lessons to your kids, get them to willingly help you with the family business, free up time for you to pursue that business, and help the whole family have more purchasing power... would that be of interest?

Here's the solution: hire your kids and employ them in your business.

You can pay them up to $5700 each per year. At the end of the year, Sam, your Uncle, will increase your tax refund by about $2000 for each child from 7 to 18 years of age. Whoa, that sounds almost too good to be true. After one of my recent speaking engagements, a firefighter from LA approached me with this question: *"Are you telling me that if my son pays my grandson $5700 per year... that there's no taxes due on the money, that we get to keep all of the $5700, that we can spend it anyway we choose, and then at the end of the year the government will send us an additional $1800?"* The answer to all of those questions is a resounding YES. After a few seconds, he just said, *"That makes no sense at all."* Actually, few of our tax codes make a lot of sense. Think of it as a game. Follow the rules, and play to win.

One of the greatest joys of a home based business is that it affords parents the unique opportunity to remain in the home actively engaged in the precious developmental milestones of their children's lives while earning an income.

> ***Children, in turn, benefit not only from increased parental availability, but exposure to daily role modeling of entrepreneurial options and time leveraging.***

The home based business becomes a metaphor through which family members learn to work together for a common good, each assuming an important role in the ultimate success of the family business.

In addition to these intrinsic values, the home based business can provide significant tax deductions and pre-tax economic benefits by hiring your children as employees in your business. Think of all the tasks every business needs to perform in order to function: janitorial, daycare, answering phones, data entry, passing out flyers, stuffing envelopes, washing cars, stocking merchandise, packing and shipping, preparing meals, programming the VCR... it's endless. Children can perform all sorts of necessary tasks providing valuable contributions to the family business.

To qualify for home based business tax deductions and employ your children:

- You must operate a legitimate business, demonstrate intent to produce a profit, show consistent work activity, and document business income, expenses and activities involved.

- Wages must be paid to the child using an actual business check.

- The paycheck must be deposited into a separate interest-bearing custodial account. The parent has signing privileges on the account since the child is a minor. These funds do not have to remain in the account. The money may be paid back into the business in part or in its entirety. The money can also be allowed to accumulate and then used to

purchase, for example, a car for the child, or the child's future college expenses.

- The wage just needs to be approximately what you would pay an outside contractor to perform the same duties.

Several specific documents are helpful in documenting a legitimate business: a written business plan, an executed employment agreement for family members, and a work log of hours and activity for each family employee. There are resources available for a nominal fee. They provide monthly services and all of the governmental reports for you. To be sure you are in compliance consulting with an Enrolled Agent (EA) or other tax expert is always a good idea.

> ***Employing your children is a win-win situation. For minimal expense and time the rewards are significant and makes your home business A Family Affair.***

To employ your children and qualify for the business deduction, you must have:

a formal employment agreement for family members
a work log of hours and activity for each family employee
a separate bank account for each employee
a formal payroll system with Quarterly and Annual Reports including W2's
State employment number. Some state have a minimal fee for a business license and a minimal tax when Quarterly Taxes are filed
consistent business operation demonstrated
issue paychecks at least monthly

Just send me an eMail Rhonda@rhondakjohnson.com with "Family Payroll" in the subject and I'll respond with the information you need to get started with your family payroll.

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