

Are you required to file an IRS Schedule H Nanny Tax if:

For the 2024 tax year, Schedule H (Nanny Tax) comes into play when a family pays any household employee \$2,700 (2025 is \$2800) or more in a calendar year (or \$1,000 or more in a calendar quarter for unemployment insurance taxes).

Please note that if you are required to file a Schedule H you may be required to report the wages paid to the State in which you reside.

Arizona Residents – Workers Compensation

Arizona law permits household employers to provide voluntary coverage. Since January 1974, Arizona law has required all public and private employers with at least one employee to carry workers' compensation insurance. The law makes coverage optional for domestic servants, working partners, and sole proprietors.

What makes someone a household employee?

According to the IRS, a household worker is an employee if you control not only *what* work is done, but also *how* it is done. Generally speaking, that means the employee is coming to your home on the schedule you dictate while following your rules. It doesn't matter whether the work is full time or part time or if you hired the worker through an online platform, they are still considered a household employee subject to taxes if you pay them more than \$2,700 (2024) per calendar year (\$2,800 for 2025) . Families that misclassify their nanny or caregiver as an independent contractor by providing a Form 1099 for filing taxes can be charged with tax evasion.

What are nanny taxes?

The nanny tax is a combination of federal and state tax requirements detailed in IRS Publication 926 that families must manage when they hire a household employee, such as a nanny, senior caregiver or personal assistant. The taxes include:

- **Taxes withheld from the employee:** Social Security & Medicare taxes (FICA), as well as federal and state income taxes.
- **Taxes paid by the employer:** Social Security & Medicare taxes, as well as federal and state unemployment insurance.

Note: Your obligations will vary depending on where you live. Not all states have income taxes, while others require additional taxes to be withheld from your employee, paid by the employer or both. To see the specific requirements where you live, visit the [nanny tax page for your state](#).

How to pay nanny taxes

Now let's get into the process of managing nanny taxes. There are four main action items that families need to take care of:

1. **Apply for Tax ID numbers:** You need both federal and state tax identification numbers in order to report your nanny taxes. You can get your federal employer identification number (FEIN) from the IRS and use this number to obtain your state identification number from the appropriate tax agency in your state.
2. **Calculate and track payroll:** You need to accurately calculate your nanny's gross pay, the taxes withheld from them and your corresponding employer taxes each pay period. (Use our nanny payroll calculator to help).
3. **File tax returns year-round:**
 - o Typically on a quarterly basis, you will need to file state tax returns. Some states do require monthly or annual filings, so check the details in your area to be sure.
 - o You should send 1040 estimated payments to the IRS four times per year.
4. **Complete year-end tax forms:**
 - o You must provide your nanny with a Form W-2 by the end of January each year so they can use it to file their tax return.
 - o The Social Security Administration requires you to file Form W-3 and Form W-2 Copy A. This lets them know that you've properly withheld FICA taxes from your caregiver and remitted FICA taxes of your own throughout the year.
 - o You need to prepare a Schedule H and file it with your federal income tax return.
 - o Your state may also require an Annual Reconciliation form, which summarizes the state income taxes you withheld from your nanny.

What household employees need to provide

Before a caregiver begins working for a family, there are three things they need to provide:

1. A Social Security number or an ITIN.
2. A completed Form I-9 with proper identification.
3. A completed federal W-4 form and corresponding state income tax withholding form (if you live in a state with income taxes).

What are the benefits of paying nanny taxes?

Both families and their nannies actually benefit from proper tax reporting. Employers may be eligible for tax breaks to offset the cost of their nanny taxes and have less to worry about if they're audited by the IRS or the state. Caregivers also gain this peace of mind; plus, it's easier to qualify for short and long-term benefits like:

- Social Security income and Medicare coverage upon retirement.
- Unemployment benefits if they lose their job due to no fault of their own.

- A verifiable employment history is necessary for obtaining auto and home mortgage loans.
- Reduced health care costs via subsidies provided through the Affordable Care Act.

What can happen if you pay your nanny under the table?

Here's a common example of what can happen:

- Your nanny works for you for several years without having taxes withheld or you paying taxes on their wages.
- When your kids are in school full time, you decide to part ways with your nanny since their services are no longer needed.
- Your nanny files for unemployment benefits and is required to list you as their past employer. The unemployment office reviews the case and finds that you didn't file any tax returns or pay into the state unemployment insurance fund.
- As a result, your former nanny will be refused benefits, and you can now expect an audit from the state and the IRS.
- You will end up having to pay back taxes (Social Security, Medicare and unemployment insurance taxes), along with penalties and interest. In some cases, you could be charged with tax evasion and your professional license could be in jeopardy.

How much work will filing nanny taxes involve?

The IRS estimates the average family can expect to spend 50-55 hours per year correctly managing the nanny tax process. This includes all the tax requirements listed above, as well as managing your employee's payroll and responding to any notices sent by the IRS and tax agencies in your state.