



Robert W. Wood

THE TAX LAWYER

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This Summer, Hire Your Kids

Unemployment figures may be improving, but young people today still face a tough road summers and after graduation. Even professional school isn't the job offer bonanza it once was. That can make offering kids a job in the family business almost a necessity. Besides, on top of tangible and familial benefits, there can be significant tax benefits.



One is shifting income from high tax-bracket parents to lower taxed kids. The work should be legit and the pay should be reasonable to be deductible. Moving pay to those who pay less is tax-efficient.

Let's say you hire your adult child to work in the office full-time during the summer and part-time in the fall. You may be in the 39.6% tax bracket, but some pay to your kid will be tax-free. Say your child earns \$6,100 that you would otherwise come to you with 39.6% tax. Your child can shelter the \$6,100 tax-free with his standard deduction.

You just saved \$2,013 by paying your child. Even if the pay exceeds \$6,100, the tax rates are graduated. A dollar taxed at your 39.6% rate might be only taxed at 10% to your kid.

For children under age 18 at the close of the tax year (or full-time students age 19 to 23), there's an added complication: the kiddie tax. It applies to the child if he doesn't file a joint return and

- (1) hasn't reached age 18 before the close of the tax year; or
- (2) his earned income doesn't exceed one-half of his support and the child is age 18 or is a full-time student age 19 to 23.

Even if the kiddie tax applies, it only means a child's investment income over \$2,000 is taxed at the parent's rate. It has no impact on the child's wages and other earned income.

IRA tax savings can also be significant. For 2013, your child can contribute \$5,500 to an IRA. The business could also provide retirement plan benefits depending on the type of plan it has, the child's age, and the hours worked.

Between the child's standard deduction and IRA contribution, he can earn up to \$11,600 in 2013 without paying any income taxes. Then there are payroll taxes to consider. You must withhold income taxes on wages. If your kid owes no taxes and had no tax liability the prior year, he might be able to claim an exemption from withholding.

However, even if you have to withhold, if your child has no tax liability, he should get a refund when he files his return.

Here are a few IRS resources:

- [Your First Job](#)
- [Tax Information for Students](#)
- [IRS Withholding Calculator](#)
- [Self-Employed Individuals Tax Center](#)
- [Student's Page – High School](#)
- [Student's Page – Higher Education](#)
- [Form W-4, Employee's Withholding Allowance Certificate](#)
- [FAQs: Form W-4 – Allowances, Excess FICA, Students, Withholding](#)

You can reach me at Wood@WoodLLP.com discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.