

Sy Accountancy Corporation

Member, American Institute of CPAs

704 Mira Monte Place, Pasadena, California 91101

Tel (626) 744-0200 • Fax (626) 744-0300 • vsy@victorsycpa.com • www.victorsycpa.com

EMPLOYING YOUR CHILDREN IN SUMMER

By Victor Sy, CPA, MBA

If you run your own business, consider employing your children this summer vacation.

Employing your children gives you a triple benefit:

1. It teaches your children the virtue of work and the value of money.
2. It could save you around 27% by shifting income down from a maximum rate of 35% for federal and 9% for state, down to the children's rate of zero to about 15% for federal and zero to about 2% for state, depending on your tax bracket.
3. It saves about \$1,500 of Hope or \$2,000 of Lifetime education credit that would otherwise be lost if you, as parents, earn above certain prescribed income limits (phased out).

Bear in mind that a child who earned about \$9,500 in wages in 2011 pays no income taxes because of the child's estimated standard deduction of \$5,800 and personal exemption of \$3,700. If your child contributes another \$5,000 for IRA, your child can earn as much as \$14,500 without paying any income tax. While you are on a roll, add another \$2,000 to \$5,000 for education benefits. That brings the total income of your child to about \$16,500 to \$19,500 without paying a dime in income taxes. Think about the possibilities if you use this concept for two or more kids. This is called Tax Planning. ☺

It therefore makes sense to employ your children this summer and have them use their paychecks for paying tuition fees and purchasing books and school supplies. You convert non-deductible expenses (tuition fees) to deductible expenses (wages).

Keep in mind that tasks assigned to your children should be appropriate for their ages. Such tasks include answering telephones, inputting computer data, taking messages, making errands, stuffing envelopes, sending out promotional literature, dropping and picking up mail at the post office, office filing, cleaning and gardening of business premises, and other chores. It is imperative to keep contemporaneous and accurate records of the work performed and wages paid. Time cards or timesheets can help you defend the wages in case the IRS or EDD comes calling. Note that there is no minimum age requirement for your children to have IRA accounts.

Here are some bonus tax tips for sole proprietors:

1. You do not have to withhold or pay FICA (Social Security tax) for your children under age 18. This saves more than 15% of their gross wages.
2. You also don't have to pay FUTA (unemployment tax) for children under 21. ☺