



# **Hiring a Nanny in Minnesota**

*Your Tax  
Responsibilities  
as an Employer*

**Tom Copeland, JD**

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## **Introduction**

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*“How do I find someone to come into my home to care for my child?”*

*“What should I look for in choosing an in-home caregiver?”*

*“What are my federal tax responsibilities?”*

*“Do I have to pay minimum wage?”*

*“Do I need workers’ compensation insurance?”*

This handbook contains the answers to these questions and more. Many parents choose to hire someone to provide child care in their home. The care may be part time or full time. Finding the right person to provide reliable and loving care for your child can be difficult. Trying to understand your tax responsibilities in hiring an in-home caregiver can be a major challenge. We hope this handbook will help make this job an easier one.

We will use the term *in-home caregiver* in this booklet, although they are sometimes called nannies, babysitters, or au pairs.

## **Finding an In-Home Caregiver**

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To find an in-home caregiver for your child, you can hire someone through a nanny placement agency or find someone on your own.

To find a nanny agency, the first step is to call your local Child Care Resource and Referral Agency (CCR&R)([www.mnchildcare.org](http://www.mnchildcare.org)). These Organizations keep lists of child care programs in your area. CCR&R agencies can refer you to nanny agencies in your area. Their counselors can also answer questions about hiring an in-home caregiver, and they can make suggestions about how you can find one on your own.

You may also be able to find nanny agencies by looking in the yellow pages under Nanny Services. The Internet has a lot of information about nanny agencies. See [www.nannynetwork.com](http://www.nannynetwork.com) for a national directory of nanny placement agencies listed by state. A nanny agency provides a screening and placement service for a fee. Before using such a service, you should obtain references and a written copy of their fee schedule.

Here are some tips to help you find an in-home caregiver on your own:

- ◆ Place your own classified ad in a newspaper, or look for ads under “Situations Wanted” in the classifieds. Don’t overlook neighborhood newspapers and special-interest publications (religious, women, parent) to place or look for an ad.
- ◆ Let friends and associates know you are seeking an in-home caregiver. Word of mouth is an excellent source for referrals.
- ◆ Many colleges and universities have courses in early childhood education or child development. Contact the teachers or heads of departments and ask if they can recommend any current or former students. Ask if you can place an

announcement in the placement office or financial aid office.

- ◆ Contact local churches or synagogues to request a notice in their weekly or monthly bulletin, or permission to post on a bulletin board.
- ◆ Visit your state employment office and find out how you can list a job opening.
- ◆ Talk to your school district's personnel office to see if any teachers are looking for work.
- ◆ Contact community agencies, senior citizens' centers, women's centers, and other such gathering places, and post a job notice.
- ◆ Look around your community for places to hang a flyer. Try the public library, grocery stores, recreation centers, YMCA and YWCA, Laundromats, and health clubs.

Take your time looking. Begin your search a month or more before you plan to hire someone.

## **Sharing an In-Home Caregiver**

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Sometimes two parents with children will hire an in-home caregiver to provide care in the home of one of the parents. If each parent pays the caregiver directly, then each parent is an employer of the caregiver and must follow all of the tax withholding and reporting rules described in this booklet. This means that the caregiver is the employee of two employers. If the caregiver works in the home of parent A and parent B gives her share of the cost of the caregiver to parent A, then only parent A would be the employer. Parent B would not be responsible for any tax withholding or reporting. In this situation both parents would be able

to claim the child care tax credit based on what each one paid, assuming all the normal eligibility rules were met. Each parent should keep careful records of their own payments.

In Minnesota, a caregiver who cares for children from more than one unrelated family must be licensed as a family child care provider. Such a caregiver would not be the employee of either parent if the caregiver worked out of her own home, but would be a self-employed business owner responsible for filing all her own federal and state taxes. The parents would not have to follow any of the tax rules described in this booklet. Contact the your family child care licensing office in your county social service department for further information on Minnesota licensing rules.

## **What Your Child Needs**

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Before hiring an in-home caregiver, think about the needs of your child. Look for these key characteristics in an in-home caregiver to ensure that your child gets the highest quality of care:

- ◆ The caregiver understands how children develop. She should know what kind of behavior to expect from children at different ages. A caregiver who has specialized training and experience in caring for children is best.
- ◆ The caregiver is responsive to your child's individual emotional needs and encourages growth toward independence.
- ◆ The caregiver encourages a healthy self-concept by helping your child feel successful, loved, and important.

- ◆ The caregiver is reliable and can effectively communicate with you about your child.

## **Choosing a Caregiver**

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Selecting an in-home caregiver can be a time-consuming process. To ensure that you make a good match, consider following these steps:

- ◆ First put together a comprehensive job description that explains exactly what the job entails. Do you expect the caregiver to cook and clean? Will the person live in? Will she work full time or part time? As you talk with applicants, make sure they understand your expectations.
- ◆ Screen applicants by phone. Ask about the person's background, work experiences with children, education, and long-range plans.
- ◆ Interview applicants in your home with your child present. Observe how they interact. Talk about your expectations and values. Discuss how the applicant would handle discipline problems, daily activities, and other duties that are required. Look for someone who will be compatible with your lifestyle. Get at least two job references.
- ◆ Check all references. Ask:
  - “What did you like best about this person's work?”
  - “What did you like least about her work?”
  - “Why did the person leave the job?”
  - “Would you hire this person again? Why (or why not)?”
- ◆ Before making a decision, examine your own feelings. Trust your instincts. If you feel uneasy, don't hire the person. Don't be discouraged if you have to interview many applicants. Take

your time. Your extra effort will likely result in choosing a more stable caregiver that meets your needs and your child's.

- ◆ Conduct a regular evaluation of the caregiver's performance at least once every six months. Encourage constant communication and feedback about how things are going for both of you. If problems develop later, be clear with the caregiver that if specific behavior doesn't improve, you will terminate the relationship.
- ◆ Set a realistic work schedule, especially for a live-in caregiver.

## **Signing a Contract**

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Make sure that you prepare a written contract that outlines the responsibilities of both parties. The contract should cover these areas:

- ◆ Beginning date of employment
- ◆ A training period (probably two weeks where one parent stays home to train and supervise the caregiver)
- ◆ Hours of work (including break times)
- ◆ Other responsibilities (cooking, transportation, shopping, house cleaning, laundry, other)
- ◆ Payment terms (per hour, per week, monthly, overtime)
- ◆ Payment due date (weekly, biweekly, etc.)
- ◆ Benefits (meals, room and board, vacation, sick leave, holidays, health insurance, other)
- ◆ Termination policy (usually either party can end the contract at will)
- ◆ Other (house rules, discipline of children)

◆ Signatures of both parties

The specific contract terms can be negotiated between you and the caregiver. Take time to discuss each contract term with the caregiver. If there is any disagreement about what a term means, rewrite it so you both agree as to its meaning. A clearly worded contract can smooth away any miscommunications over what is expected of each party. Any changes to a contract after it has been signed must be made in writing and signed again by both parties.

## **Hiring a Caregiver**

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When you hire someone to care for your child in your home, you become an employer and must treat the caregiver as an employee. It doesn't matter if the caregiver is paid by the hour, or only works part time. Because the caregiver will be working under your direction and control, the caregiver is not an independent contractor. Independent contractors are not subject to withholding taxes and are responsible for paying all of their own taxes.

There are several narrow exceptions to the rule that an in-home caregiver is your employee. The first is if the caregiver works for a nanny agency and you are paying the agency for the caregiver's services. In this case the agency is probably controlling the work of the caregiver. The second exception is if the caregiver is in the business of providing in-home services and works for other parents besides you. In this case the caregiver would probably be considered self-employed and not your employee. Such a

self-employed caregiver should have a registered business name with the state, have her own contract, and operate as a private business.

Although many parents who use in-home caregivers treat them as if they were independent contractors, this is not the law. The IRS has clearly ruled that in-home caregivers are subject to all applicable laws dealing with employers and employees. This means you are responsible for meeting all federal and state tax rules described in this handbook.

Some parents choose not to withhold the proper taxes because the caregiver is not reporting the income to the government. This is illegal. Parents should realize that if they are audited, the IRS will hold them liable for all the unpaid share of employer and employee Social Security and Medicare taxes. The state will also hold them liable for state unemployment taxes and make them pay fines and penalties for not getting workers' compensation insurance. Although nobody likes to pay taxes, it is the law. The sections below will help you understand your tax responsibilities.

## **FEDERAL TAX REQUIREMENTS**

By hiring an in-home caregiver, you must follow some specific federal laws. These include:

- ◆ Obtaining proof that the employee is an U.S. citizen or legally entitled to work in the United States (Form I-9)
- ◆ Acquiring a federal Employer Identification Number (Form SS-4)
- ◆ Paying the federal minimum wage
- ◆ Withholding federal income tax (only if the

caregiver wishes) (Form W-4)

- ◆ Withholding Social Security and Medicare taxes from the caregiver's paycheck and paying the employer share of these taxes
- ◆ Paying federal unemployment taxes
- ◆ Asking the caregiver if they wish to participate in the Advanced Earned Income Credit
- ◆ Filing tax forms at the end of the year (Schedule H, Form W-2, Form W-3)

Below is a more complete description of your federal responsibilities as an employer of an in-home caregiver.

### **ELIGIBILITY OF THE EMPLOYEE**

Every employer must verify that their employee is a U.S. citizen or is eligible to work in the United States legally. To do this, the employer must review documents presented by the employee (birth certificate, Social Security number, or passport) and both employer and employee must sign the Immigration and Naturalization Service (INS) Form I-9 Employment Eligibility Verification. You should keep this form in your own records for three years after the date of hiring or one year after the employment is terminated, whichever is later. This form must be filled out even if the caregiver is hired through a nanny agency. You do not send Form I-9 to the INS, the IRS, or any other government agency. If you have any questions about this form, call the INS at 800-375-5283 or write them at INS, Metro Office Park, 2901 Metro Drive #100, Bloomington, MN 55425.

Any employee you hire must have a Social Security number. An employee can apply for a

Social Security number on Form SS-5 Application for a Social Security card. The form can be obtained from any local Social Security Administration office or by calling 800-772-1213.

If your employee is an alien, different rules may apply. A person designated as a resident alien is treated the same as a U.S. citizen, and all the normal tax withholding rules apply. If the person is not designated as a resident alien, then the tax rules may be different, depending on what country the alien is from. Check with the IRS (800-829-1040) to find out the specific tax withholding rules to follow in this situation. For more information, see IRS Publication 519 U.S. Tax Guide for Aliens. If the alien is in this country illegally, the alien should fill out Form W-7 Request for an Individual Taxpayer Identification Number. To get a taxpayer identification number, the alien must show proof of her identity with a picture ID, a birth certificate, or a baptismal certificate. This tax identification number should be used by the employer on all payroll tax forms, in place of a Social Security number. A parent hiring an alien with a taxpayer identification number can claim the child care tax credit for paying this caregiver. The IRS is only concerned about receiving the proper amount in taxes from employers and employees. An illegal alien should file personal income tax forms. The IRS will not share information about the identity of illegal aliens with the Immigration and Naturalization Service. Illegal aliens should be aware that nonpayment of taxes can be used by the INS to deny an immigration petition.

## **EMPLOYER TAX IDENTIFICATION NUMBER**

All employers need to fill out Form SS-4 and send it in to the IRS to receive a personal Employer Identification Number (EIN). Use this number on all IRS employer forms that you file each year. Send the completed form to the IRS Kansas City Service Center Entity Control, Stop 6800, 2306 East Bannister Road, Kansas City, MO 64131. It takes approximately four weeks if you apply for your EIN by mail. Or you may receive your EIN over the phone by first completing the form and then calling the regional IRS at 800-829-1040 or sending a fax to 816-926-7988. Form SS-4 and its instructions may be obtained by calling the IRS at 800-829-3676. You may also obtain the tax identification number online at [www.irs.gov](http://www.irs.gov). Search for Form SS-4. After filling out the form online you will get a number instantly. If you already have an EIN because you are self-employed or an employer of other employees, use your existing EIN.

## **MINIMUM WAGE**

You must pay your employee the federal minimum wage (\$5.15 per hour as of May 2005). Above 40 hours a week, you must pay time-and-a-half wages. The minimum wage must be paid even if your employee is working only a few hours per year.

A live-in caregiver does not have to be paid overtime if you establish the regular hours that the caregiver's service is needed. You may exclude sleeping, meal time and free time in the calculation of hours worked.

Employers are not required to pay any benefits

such as vacation days, holidays, sick leave, medical insurance, or any other benefits. Offering specific benefits is up to each employer and can be negotiated with individual caregivers. For further information about wages and benefits, contact the Minnesota Department of Labor and Industry at 800-342-5354; 651-284-5005.

## **FEDERAL INCOME TAX WITHHOLDING**

You do not need to withhold federal income tax from your employee's paycheck unless the employee requests this. You must give the employee Form W-4 to fill out at the time the employee is hired. If they do not want you to withhold, you should keep on file a signed W-4 with the notation "no withholding requested." If the employee wants you to withhold, you must look at the tables in IRS Publication Circular E to determine how much to withhold. You must report this withholding tax on Schedule H Household Employment Taxes which you file at the same time you file your personal Form 1040 U.S. Individual Income Tax Return. If you withhold income tax, you must also give Form W-2 Wage and Tax Statement to the employee and send a copy to the Social Security Office at the end of the year. The W-2 is a form that summarizes the total wages paid to an employee for the year. It also shows the total amount of taxes withheld from the employee.

If you withhold federal income tax you must also withhold Minnesota income tax. If you do not withhold federal income tax you do not have to withhold Minnesota income tax. See below for more information. Because of the paperwork involved, it may be worth it to avoid

federal withholding if you can get your employee to agree.

## **SOCIAL SECURITY AND MEDICARE TAXES**

Employers are responsible for withholding and paying Social Security and Medicare taxes for their employees. There are several exceptions to this general rule. If you pay any one employee less than \$1,400 in a calendar year, or if you paid your spouse or your child who is under age 21, you do not have to pay or withhold Social Security or Medicare taxes. If you pay an employee who is under age 18, you do not have to pay these taxes unless their principal occupation is caring for children. In addition, you do not have to pay these taxes if your employee is a student under age 18. There is also a special exception if you paid your parent. See IRS Publication 926 for further information about these exceptions.

Both you and your caregiver owe Social Security and Medicare taxes. The taxes for each of you are 7.65 % (6.2 % for Social Security tax and 1.45 % for Medicare tax) of the employee's wages. These amounts may change in the future. You should withhold 7.65 % of the employee's wages and pay another 7.65 % out of your own pocket. If you reimburse your employee for mass transit to commute to your home, do not count this reimbursement (up to \$100 per month) as wages. Do not include the value of food, lodging, clothing or other non-cash items you give your employee as wages.

At the end of the year you must send Form W-3 Transmittal of Income and Tax Statements to

the Social Security Administration. This form tells the Social Security Administration how much Social Security and Medicare taxes you withheld throughout the year. You are not sending money with this form. These taxes are paid on Schedule H (see the next paragraph). By sending in Form W-3 you are ensuring that your employee receives the proper credit for these taxes.

All employers of in-home caregivers will report Social Security and Medicare taxes on Schedule H at the end of the year. (If you are a sole proprietor who has other non-domestic employees, or a farmer, you should see Publication 926 for exceptions to this rule that may apply to you.) You may owe a lot of taxes when you file Schedule H. These include: employer and employee share of Social Security and Medicare taxes, federal unemployment tax (see below), and possibly federal income taxes. You may want to increase the withholding taxes on your own personal income to avoid penalties for underpaying your payroll taxes. You can adjust your withholding on Form W-4 which is available from your employer, or prepay your taxes by using Form 1040ES Estimated Tax for Individuals. If you use Form 1040ES, you should file this form quarterly throughout the year. The rules describing how much you should be withholding on your personal taxes are found in the Instructions to Form 1040ES.

## **FEDERAL UNEMPLOYMENT TAXES**

If you pay one or more in-home caregivers a total of \$1,500 or more in any calendar quarter, or if you pay someone for some part of the day

in any 20 different weeks during the year, you must pay Federal Unemployment Tax (FUTA), which pays unemployment compensation to workers who lose their jobs. (If the caregiver is your spouse, your child who is under age 21, or your parent, you do not have to pay FUTA tax.) For 2004, the FUTA tax rate is .8% of the first \$7,000 of wages paid during the year to each caregiver. This rate of .8% assumes that you have paid any Minnesota unemployment taxes on time. You must pay this unemployment tax out of your own pocket. Do not withhold this tax from the employee's paycheck. This tax is also paid on Schedule H at the end of the year. See IRS Publication 926 Household Employer's Tax Guide for more information.

## **EARNED INCOME CREDIT**

The federal earned income credit assists low-income families with young children. It reduces the tax owed or allows a taxpayer to receive a payment from the IRS if they do not owe any tax. You may have to make advance payments of part of your caregiver's earned income credit along with the employee's wages. This credit comes out of the employee's taxes; it is not an amount you must pay out of your pocket. You must give your employee a notice about this credit. If you do not withhold federal income tax for your employee, you must notify the person that they may be eligible to receive advance payment of the earned income credit. To do so, give them Notice 797, Possible Federal Tax Refund Due to the Earned Income Credit, or a Form W-2, which has the Notice printed on the back of Copy C. If your employee wants to receive an advance earned income credit

payment, they should fill out Form W-5 Earned Income Credit Advance Payment Certificate. Use the advance EIC payment tables in Publication 15, Circular E, Employer's Tax Guide, to find out how much less to withhold from your employee's paycheck.

## **State Tax Requirements**

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Below is a complete description of your responsibilities as an employer of an in-home caregiver in Minnesota.

### **MINNESOTA TAXPAYER IDENTIFICATION NUMBER**

All employers must obtain a Minnesota Taxpayer Identification Number, even if they are not withholding Minnesota income taxes. To apply for this number call the Minnesota Department of Revenue at 651-296-3781.

### **MINNESOTA INCOME TAX WITHHOLDING**

If you are withholding federal income taxes, you must withhold Minnesota income taxes. When you are applying for your Minnesota Taxpayer Identification Number, tell the state if you will be withholding state income taxes. The Minnesota Department of Revenue will send you the Minnesota income tax withholding instructions and tax tables, and enough withholding forms for immediate use. Use the withholding tables in the instructions to determine how much state income tax to withhold from your employee's pay. Within four weeks you should receive a book containing personalized deposit forms and returns. Start using the personalized forms as soon as you

receive them. You will be paying quarterly using Form MW-1 Quarterly Withholding Tax Return. At the end of the year you will use Form MW-6 Year-End Withholding Return/Reconciliation, which will serve as the fourth-quarter payment and as a reconciliation of all payments made during the year. After the first year, the Minnesota Department of Revenue will automatically send you new forms for the next year. If you are not withholding Minnesota income tax, you do not have to file MW-1 or MW-6.

### **NEW HIRE REPORTING REQUIREMENT**

You must report to Minnesota that you have hired an employee within 20 days of when the employee begins working. The purpose of the report is to help Minnesota locate delinquent payers of child support. Such reporting involves sending to the Minnesota New Hire Reporting Center the name, address, and Social Security number of your employee, as well as your name, address, and federal employer tax identification number (see above). You may call with this information (651-227-4661, 800-672-4473), fax it in (800-692-4473), or mail it to Minnesota New Hire Reporting Center, PO Box 64212, St. Paul, MN 55164.

### **MINNESOTA UNEMPLOYMENT TAXES**

If you pay an in-home caregiver \$1,000 or more in a calendar quarter then you must pay Minnesota unemployment taxes. For 2005, the tax rate is 2.88% of the first \$23,000 in wages paid to a caregiver. This rate could go up or down in later years. You must pay this tax quarterly. To receive Form DEED-13 Report to Determine

Liability for Unemployment Tax (to file state unemployment taxes), write to the Minnesota Department of Employment and Economic Development, 1st National Bank Building, 332 Minnesota Street, #E200, Saint Paul, MN 55101-1351, or call 651-296-6141. They will also send you a form each quarter for you to fill out and return with your payments. It is a good idea to call this office as soon as you know that you will be required to pay this tax.

### **WORKERS' COMPENSATION INSURANCE**

Workers' compensation insurance is a program that provides financial assistance to employees who are injured or become ill because of their work. Injuries could include a sprained back or injury due to a fall. Injured workers receive partial wage replacement benefits and full medical and rehabilitation costs. In the case of death, workers' compensation gives benefits to the worker's dependents. The program also protects employers from being sued because of such injuries or death. The employer pays for the cost of this insurance. In Minnesota you must purchase workers' compensation insurance if you pay an in-home caregiver \$1,000 or more in any calendar quarter. To obtain this insurance, ask your homeowner's insurance or car insurance agent if their company provides such insurance. If they will not offer you a policy they will refer you to the Minnesota Workers' Compensation Insurers Association Incorporated. This is a state-assigned risk plan that will quote you a rate for the insurance and assign you to a private insurance company. Rates for workers' compensation will be approximately \$500 a year for a part-time worker (20 hours or less per week) up to

approximately \$1,100 a year for a full-time worker. Rates can vary. For more information, contact the Minnesota Workers' Compensation Insurers Association ([www.mwcia.org](http://www.mwcia.org)), 7701 France Ave. South #450, Minneapolis, MN 554435, or call 952-897-1737.

## **Reporting Deadlines**

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When you first hire an employee:

1. Fill out INS Form I-9 and keep it for your own records.
2. Send in IRS Form SS-4 to the IRS to get a taxpayer identification number.
3. Ask your employee to fill out IRS Form W-4, then keep it for your own records.
4. Get a Minnesota Taxpayer Identification Number.
5. Report your new hire to the Minnesota New Hire Reporting Center.
6. Purchase Minnesota workers' compensation insurance.

Throughout the year:

7. File Employer's Quarterly Tax Report for Minnesota unemployment taxes.
8. File Minnesota Form MW-1 quarterly if you are withholding Minnesota income tax.

After the end of the year:

9. Fill out IRS Form W-2 and give one copy to your employee by January 31 the following year. Send another copy of the form to the

Social Security Administration by the end of February the following year. If the employee leaves before the end of the year, you may give the employee the W-2 within 30 days after the employee requests it or when you make your last wage payment, whichever is later.

10. Fill out IRS Form W-3 by the end of February the following year and send to the Social Security Administration.
11. Fill out IRS Schedule H and file it with the IRS when you file your personal tax return. Add the taxes shown on Schedule H (Social Security, Medicare, FUTA and any federal income tax withholding) to your Form 1040 tax return. If you have other business employees, you can choose to pay your in-home caregiver taxes on your other business tax forms. If you do so, do not file Schedule H.
12. If you are withholding Minnesota income taxes, fill out Minnesota Form MW-6 (form for the fourth quarter of Minnesota income tax withholding) by the end of February the following year.

After you file Schedule H for the first year, the IRS will automatically send you the federal forms and instructions you need to file the proper forms for the next year. The Minnesota Department of Revenue will also automatically send your state withholding forms for the next year.

Be sure to keep copies of all of your state and federal employment tax forms and your employee's Social Security number, as well as

records about your withholdings and wage payments, in your files in a safe place for at least three years after you file your tax return. When you stop using an in-home caregiver, contact the IRS and the Minnesota Department of Revenue to let them know you don't have an employee any longer. Otherwise they will continue to send you withholding forms.

### Example

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Let's look at an example to illustrate the tax liability for hiring an in-home caregiver. In our example the parent is paying the caregiver \$6 per hour, 40 hours a week, 52 weeks a year. The parent is not paying benefits, and the caregiver does not want federal income tax withheld from her paycheck.

$$\begin{aligned}
 &\$6 \text{ per hour} \times 40 \text{ hour week} = \$240 \text{ per week} \\
 &\$240 \text{ per week} \times 52 \text{ weeks} = \$12,480 \text{ per year}
 \end{aligned}$$

	<b>Employer's Liabilities</b>	<b>Caregiver Income</b>
Wages	\$12,480	\$12,480
Social Security/Medicare (7.65 % paid by each party)	\$955	-\$955
Federal unemployment (.8 % of first \$7,000)	\$56	
Minnesota unemployment tax (2.88 %)	\$359	
Workers' Compensation	\$1,100 (approximately)	
<b>Total</b>	<b>\$14,950</b>	<b>\$11,525</b>
	(Cost to employer)	(Take-home pay)

The caregiver is responsible for paying federal and Minnesota income taxes on her salary.

The total cost to the employer represents about 20 % more than the wage rate. Use this as a

guide to help you determine how much the actual cost will be to you in hiring an in-home caregiver. Later increases in the wages you pay will raise your taxes as well.

## **Tax Credits**

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The amount of money you are paying an in-home caregiver, including taxes, may be claimed toward your federal child care tax credit, if you meet the eligibility rules. See IRS Form 2441 Child and Dependent Care Credit and IRS Publication 503 Child and Dependent Care Expenses for more information.

If you hire an in-home caregiver and work for a company that offers a dependent care plan (also known as a cafeteria plan, salary reduction plan, or flexible spending account), you may make deposits to this plan and pay your caregiver with these tax-free funds. This can represent a significant tax savings to you. Check with your employer for further information.

There is also a Minnesota child care tax credit. For more information get Form M-1CD from the Minnesota Department of Revenue.

## **Liability and Property Insurance**

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Having a caregiver come into your home on a regular basis can create additional risks of damage to your child, your personal property, or your home. Here are some actions you can take to protect yourself:

- ◆ If the caregiver works for an agency, ask what types of insurance coverage are provided. You want to be protected against property damage,

caregiver theft (bonding) and caregiver liability. Most nanny placement agencies will offer insurance.

- ◆ If the caregiver does not work for an agency, and does not live in your home, check into your homeowner's insurance policy to find out what coverage it provides for an in-home caregiver. Most likely it will offer liability and property protection for you. Many homeowner's policies do not provide coverage when the caregiver is away from your home with your child on a field trip. Ask your insurance agent what policies are available for such coverage. If the caregiver does live-in, you may have to get a rider to your homeowner's policy for liability coverage.
- ◆ Check your car insurance policy to see if your child is protected if the caregiver uses your car to transport your child. Most policies will cover you. You may want to raise the limits of coverage if your child will be transported on a regular basis. You can also purchase a general umbrella liability insurance policy to get broader coverage.
- ◆ To protect you against theft by a caregiver, the caregiver can purchase bonding insurance on her own. A caregiver can also get comprehensive general liability insurance to protect herself against lawsuits arising out of her actions in caring for your child.

## **Closing Note**

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For many parents, the prospect of filling out all the tax forms described in this booklet can seem frightening at first. Take your time to carefully review your responsibilities. Seek help from a tax preparer if necessary. By following the instructions in this booklet, you are protecting yourself and your caregiver.

## **Appendix A: Tax Forms, Publications, and Resources**

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You will need the following tax forms when hiring an in-home caregiver.

### **FEDERAL FORMS AND PUBLICATIONS**

Form SS-4	Application for Employer Identification Number
Form W-2	Wage and Tax Statement
Form W-3	Transmittal of Income and Tax Statements
Form W-4	Employee's Withholding Allowance Certificate
Form 1040ES	Estimated Tax for Individuals
Schedule H	Household Employment Taxes
Publication 15/Circular E	Employer's Tax Guide
Publication 926	Household Employer's Tax Guide

All IRS forms and publications may be obtained by calling the IRS at 800-829-3676 or by downloading them from the IRS Web site at [www.irs.gov](http://www.irs.gov).

For any tax-related questions about employees, call the IRS at 800-829-1040.

### **IMMIGRATION AND NATURALIZATION SERVICE**

Form I-9	Employment Eligibility Verification
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You can obtain this form by calling the INS at 800-375-5283.

### **MINNESOTA FORMS**

Minnesota Department of Revenue

Form MW-1	Minnesota Quarterly Withholding Tax Return
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M-1CD                      Minnesota Child Care Tax Credit  
M14                              Individual Minnesota  
   Estimated Tax Voucher  
Minnesota Income Tax Withholding Instructions  
and Tax Tables for Quarterly Filers

For these forms and booklet call 651-282-5225  
or 800-657-3605. Their Web site is:  
[www.taxes.state.mn.us](http://www.taxes.state.mn.us)

### Minnesota Department of Employment and Economic Development

Report to Determine Liability (for unemployment  
insurance)

Employer's Quarterly Tax Report (for unemploy-  
ment insurance)

Unemployment Insurance Information for  
Employers

For these forms and publications call 651-  
296-6141.

### **TAX PREPARER ASSISTANCE**

To get help in filing all the payroll forms  
described in this booklet, consult with a local  
tax preparer or payroll service. There are a  
number of organizations that specialize in filing  
tax forms for in-home caregivers. Search the  
Internet under "nanny tax services." Some of  
these organizations include:

[www.4nannytaxes.com](http://www.4nannytaxes.com) (800-NANITAX)  
[www.mothershelpmates.com](http://www.mothershelpmates.com) (813-269-4954)  
[www.gtmassoc.com](http://www.gtmassoc.com) (888-4EASYPAY)

# Family Child Care Business Resources from Redleaf Press

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## **CALENDAR-KEEPER**

Be supremely organized with the most comprehensive family child care record-keeping system available. Includes monthly expense charts for all purchases; monthly attendance and payment logs for parent fees; Food Program tallies for meals, expenses, and claims; weekly/quarterly income records; important record-keeping advice; tax worksheets; convenient mileage records; ready-to-use waiting lists; fire and emergency drill records; easy-to-find emergency numbers; recipes and menus with CACFP crediting; nutrition information and fun activities; and a handy envelope for receipts. The large, 12 x 9, 100-page format has space to record 38 children. Spiralbound; will hang or lie flat. Also available as software.

## **FAMILY CHILD CARE RECORD-KEEPING**

### **GUIDE, SEVENTH EDITION** *By Tom Copeland, JD*

Includes over 1,000 allowable deductions indexed alphabetically for easy reference, an expanded discussion of Time-Space percentage, ways to calculate all the hours you work, how to choose and use a qualified tax preparer, and a detailed explanation of CACFP (Food Program) Tier I and Tier II expenses and income. Includes selections from the IRS Family Child Care Audit Guide to help keep records that will protect you in the event of an audit. Other topics addressed include bartering, military housing allowances, tangible personal property tax, applying for a home loan, and employees.

## **FAMILY CHILD CARE TAX WORKBOOK AND ORGANIZER**

*(Includes all tax forms)* *By Tom Copeland, JD*

Our *Tax Workbook* features step-by-step instructions to make it as easy as possible for you to do your taxes. We've included all the forms you'll need, perforated for easy tear-out, including Schedule C (Profit or Loss for Business), Form 8829 (Business Use of the Home), Form 4562 (Depreciation), Schedule SE (Social Security), and Form 1040 ES (Estimated Tax). The *Tax Organizer* will help you gather all the information you need to give to your tax preparer. Use with the *Record-Keeping Guide* and the *Calendar-Keeper* for a complete and error-free record-keeping and tax system.



## Hiring a Nanny in Minnesota

*“How do I find someone to come into my home to care for my child?”*

*“What should I look for in choosing an in-home caregiver?”*

*“What are my federal tax responsibilities?”*

*“Do I have to pay minimum wage?”*

*“Do I need workers’ compensation insurance?”*

This handbook contains the answers to these questions and more. Many parents choose to hire someone to provide child care in their home (a “nanny” or “au pair”). The care may be part-time or full-time. Finding the right person to provide reliable and loving care for your child can be difficult. Trying to understand your tax responsibilities in hiring an in-home caregiver can be a major challenge. This handbook contains all the information you’ll need to know about your responsibilities as an employer of in-home child care.

Written by the leading national expert on family child care, *Hiring a Nanny in Minnesota* outlines some essential components to organizing a family child care business. Some of the topics discussed include: child care licensing, government benefit programs, record keeping and tax tips, and insurance.

Visit the national center for the business of family child care. The Web site of Redleaf National Institute, [www.redleafinstitute.org](http://www.redleafinstitute.org), is your online resource for business issues unique to family child care.

For a free catalog of family child care resources, call Redleaf Press toll-free at 800-423-8309, or visit our Web site at [www.redleafpress.org](http://www.redleafpress.org).



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