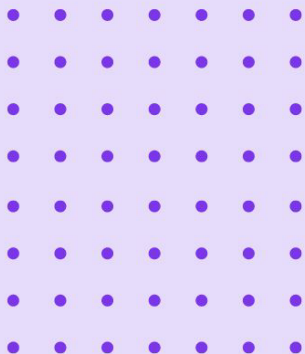


ADVANCED TAX:

32 IDEAS FOR HIRING YOUR CHILD

32 Ways Your Child Can
Preform in Your Business to
Give Your Family Tax-Free
Income AND a Tax Saving
Write-Off



A special word about how this guide came to be...

Wealth Factory is a personal and professional financial education and implementation company for entrepreneurs and professionals.

While you focus on what you do best — running a great business and providing state-of-the-art service — managing your personal finances often takes a back seat, and this can create tremendous personal and professional stress. The good news is that it doesn't have to be that way, and if you're like the clients we work with, then you'll be able to keep more of the money you work so hard to make, and enjoy it more along the way.

Wealth Factory provides an integrated team approach that brings together asset protection attorneys, accountants, retirement planners, investment advisor, insurance experts, estate planners, and cash flow specialists. This is very similar to the kind of integrated services provided by a boutique family services firm for high net worth individuals, but without the high price tag (or the \$50M net worth qualifier). Advice and implementation happens in a custom-tailored sequence, facilitated by a financial quarterback so the client does not have to waste time.

This workbook is a small excerpt taken from our services. As business owners, teaching our children entrepreneurship can be extremely fulfilling, and can even help reduce your tax burden so you can keep more of your income and put to good use. We hope you enjoy this workbook, and if you'd like to learn more about working with us, you may see if our team is right for you, [by following this brief assessment](#).

Advanced Tax Strategy for Small Business Owners:

32 Jobs Your Child Can Perform in Your Business to Give Your Family Tax-Free Income AND a Tax Saving Write-Off

As a business owner, your company can hire your kids, pay them up to \$12,950* per year, and in most cases your business gets a write off that lowers its tax liability.

This strategy works because neither your kids nor your household are taxed on the wages, as long as you follow the rules.

Employing your kids also provides several other benefits

The benefits go beyond tax savings. First of all, it allows your children to learn the value of work. Second of all, it gives them insight into the family business and trains them in entrepreneurship. Finally, it provides you with a nice tax deduction while giving your family another source of tax-free income.

Before using this strategy, please check with your accounting or tax professional. Everyone's financial situation is different and a

qualified CPA can help you identify the right course of action for your business and your family.

Here's how it works

Each child can earn up to the standard deduction allowed by the IRS and not owe any tax at all. Up until 2017, the magic number for that standard deduction was \$6,300 per child. However, in 2022, you can pay each child who is under the age of 18 up to \$12,950 per year and 100% of that income will be tax-free for them.

And since you get to take that as a deduction on your business, you will get a tax break according to your highest marginal rate. This could amount to \$4,560 more in tax breaks for each child you hire.

Now generally, it's a bad idea to spend a dollar to save forty cents (or in this case, spend \$12,950 to save \$4,560). You never want to let the tax tail wag the dog. So if you use this strategy and simply let your children blow the money on candy or video games, it may not be such a great deal.

However, there are ways you can make this tax strategy much more efficient and beneficial to both you and your child.

Ways to Make This Strategy Work Even Better

Since you actually have to pay your child for work performed (and not just say you do), set up a separate bank account for each child to have their "paychecks" deposited. Then have the children use this money for all the things you would normally pay out of your own pocket.

For example, they can now pay for their own sports or music lessons. They can pay for their own airfare on your next family vacation. They can pay for their own clothes or computers or recreation. They can even pay for their own cell phones, including the monthly service. The list goes on.

In this way, your child develops a realistic sense of how much things cost. In addition, it combats the entitlement mentality that giving your child an "allowance" can cause. It also gives your child a sense of satisfaction knowing they are self-sufficient with many of their own living expenses.

The benefit to you is that you end up with less out-of-pocket expenses to provide for their day-to-day needs. So the "salary" you pay your child actually ends up being money you would have spent on them anyhow — but now you get a tax break for it.

Of course, like any tax strategy, you must follow the rules to make it work. So if you plan to utilize this tax-saving tip, keep in mind the following IRS guidelines:

- The job must be reasonable for their age. For example, if you hire your 14 year-old to file paperwork, or your 10 year-old to take out the trash you should be fine. But if you try to hire your 5 year-old to operate the warehouse forklift, you'll get into trouble.
- Keep accurate records including a timesheet showing the hours and days your child worked. This justifies the amount of money you give them for their work.
- Document the job or tasks they perform. Having a job description and employment agreement will also help your case should the IRS question you. It's better to have more documentation than necessary rather than too little.
- Pay your child a reasonable amount for the job they do. Whatever you'd pay an employee for similar work is a reasonable guideline. If you are unsure, you may want to do a comparative study to determine industry-standards. Paying them exorbitant salaries for menial jobs will get you in trouble.
- If your business is set up as a corporation, you may be required to pay payroll tax (consult your CPA), but you can

still write off their wages, and they will likely get a refund of all their Federal Tax.

- FICA tax may not have to be withheld on work performed by a child under the age of 18 while employed by a parent in an unincorporated business. However, there is no FICA or FUTA exemption for employing a child in an incorporated business or in a partnership that includes non-parent partners. In these cases, the children are subject to the same withholding rules that apply to all other employees.

Remember, these deductions apply only to your children under the age of 18 who are your dependents, and you'll want to ask your tax professional for specific advice for your unique situation.

Employment Ideas for Your Children

Now that you understand the benefits of hiring your children to work in your business, here's a list of possible "jobs" you can hire your children to do:

1. Make coffee, tea or other snacks for office employees
2. Actor or model for TV or print advertising, or as a website model

3. Voice talent for radio advertising
4. Create or distribute marketing materials and brochures, etc.
5. Repair or clean business or rental property.
6. Assist with social media marketing, including posting on blogs, Twitter, Facebook, Instagram, etc.
7. Website design or maintenance
8. Search Engine Optimization for your website
9. Competitive research on internet
10. Product testing and feedback
11. Maintain an email autoresponder for customers or prospects
12. Answering customer support emails
13. Solicit and compile customer testimonials
14. Serve on the corporate board of directors (if incorporated)
15. Research for new product lines
16. Cleaning at office or practice
17. Office building maintenance including light bulb replacement, HVAC filter replacement, etc
18. Landscaping and yard work including mowing lawn, weeding or snow shoveling
19. Wash uniforms and towels
20. Collect rents or other business collections

21. Assist with office work, pick up business mail, shop for supplies
22. Provide bookkeeping and basic accounting assistance
23. Prepare spreadsheets, review invoices and bank statements, etc.
24. Answering the phone for the business
25. Develop/review and monitor business plan for practice (for older children in management training)
26. Provide services during legitimate business dinners or parties (e.g. food prep, setup, decorations. cleanup, etc)
27. Assist with lab work and other clinical duties
28. Perform internet research for business-specific activities
29. Send out birthday cards to clients/customers
30. Send out appointment reminders and or newsletters to customers or prospects
31. Prepare corporate minutes
32. Transcribe audio files or dictations

CONSULT WITH A CPA

Everyone's financial situation is different. Only a professional CPA can help you identify the right course of action for your business and your family.

BONUS SECTION: How to Avoid Payroll Tax For Your Children If Your Business Is an S Corp

For most small business owners, taxes are their single biggest expense.

In order to minimize your tax burden, we've shown how hiring your child(ren) is an excellent tax-saving strategy for business owners with children under 18.

However, one part of the strategy has raised a few concerns:

"FICA tax may not have to be withheld on work performed by a child under the age of 18 while employed by a parent in an unincorporated business (sole-proprietorship, single member LLC or a partnership where the only partners are the child's parents). However, there is no FICA or FUTA exemption for employing a child in an incorporated business (S or C Corp) or in a partnership that includes non-parent partners. In these cases, the children are subject to the same withholding rules that apply to all other employees."

In other words, if your business is incorporated, you must pay payroll taxes on income given to your children.

However, if you have your small business set up as an S Corp (like we normally recommend for maximum tax advantages)...

Then it turns out there is a workaround for this situation.

As one high-profile tax strategist says: in order to lower your tax, just change the facts.

Here's how to do it:

Avoiding Withholding Tax for your Children

As mentioned, in many cases, you're not required to withhold any payroll taxes for your children under 18, including FUTA, SUTA and FICA taxes.

However, this only applies if your business is a sole-proprietorship, a single-member LLC taxed as a disregarded entity or a LLC taxed as a partnership and owned solely by you and your spouse.

If your business is set up as an S or a C corporation or as a partnership with other non-parent partners, you don't get this benefit of avoiding payroll taxes when paying your children. In these cases, the IRS says you'll have to withhold payroll taxes.

The way to get around this restriction is with a little creativity and a "hybrid" approach.

Here's How the Strategy Could Work:

Instead of paying your children directly from your S Corp, you pay them out of a family management company.

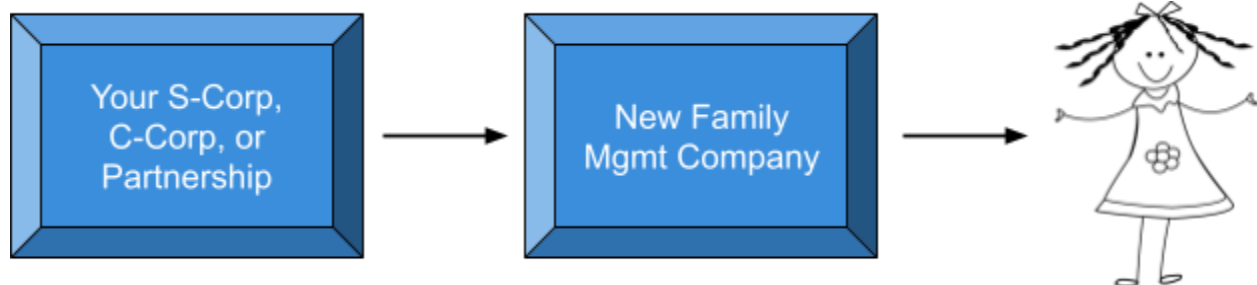
This is a simple company separate from your S Corp that you set up as a Sole Proprietorship owned by yourself or your spouse.

Its sole purpose is to support the operations of your Corporation, which can include the scheduling and monitoring of jobs done by the child(ren) and all the bookkeeping and documentation necessary to keep the jobs within IRS standards.

The family management company then charges the Corporation a management fee for these services. This separate family management entity can provide independent services to one or more of your businesses.

The family management company then pays the child, and you avoid having your children on the corporate payroll.

And since the family management company is a Sole Proprietorship owned by one of the children's parents, it falls under the IRS exemption where payroll taxes don't have to be withheld.



What About the "Kiddie tax?"

Some business owners have asked us: "What about the 'kiddie tax'? Aren't the kids going to end up paying taxes on their income at our rates anyway?"

The answer is no. The kiddie tax only applies to unearned or "portfolio" income and if the children are working in the business it will clearly be “earned” income.

What about Children Over the Age 18?

Another question we've been getting is how this strategy works with children over age 18.

If you are paying children (or grandchildren) over the age of 18, you have the option of treating them as either subcontractors or employees.

You will have to issue them a 1099-MISC form next January if they are truly acting like a subcontractor, or start a W-2 and withhold typical payroll taxes if their work schedule classifies them as employees.

Talk to your CPA about whether their work qualifies as contract employment.

Keeping It All Legitimate

Just like you don't want to create some sham job for your kids to shield income from taxes — you don't want to just "say" you have a family management group to pay the kids.

If the Internal Revenue Service audits you, you'll have to show that the family management company (run by one of the parents) actually did the work of scheduling and documenting the children's work.

As always, the better records and documentation you keep of all work activity, the easier any audit will be.

What About Using The Money to Save For Your Kid's College?

Some of our readers have been quick to point out that the children's income can be put into a qualified plan like an IRA or a Coverdell Education Savings Account or a 529 plan.

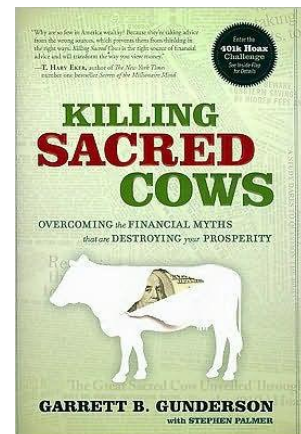
And it is true. Since your kids now have “earned” income they can legally contribute to a Roth or Standard IRA.

Be careful before you jump onto this bandwagon, though. All qualified plans, including the educational varieties, have limitations, rules and features that can make them a less than ideal way to save for your child's education.

If you haven't yet read **Garrett Gunderson's book, *Killing Sacred Cows***, you can [get a downloadable version here](#).

He gives numerous compelling reasons to avoid qualified plans completely. The book is required reading for all of the top level clients we work with.

If you absolutely feel you must put your child's income into an IRA, make sure it is a Roth IRA. At least that way



they can pull out any contributions made before retirement without penalty, whether or not it's for college or anything else they want the money for.

Take note: It makes no sense to use a regular IRA. Why defer paying tax when they're in a 0% bracket now? They will be in a some tax bracket later as an adult, and then they'll have to pay taxes on the contributions and any earnings.

All you'd be doing making your child(ren) pay taxes on this income later in life even though they can pay 0% tax now.

One final option that may make sense is to establish a Cash Flow Banking system for you child(ren). There are no restrictions on how much can be put in or how much you can access. Plus, the money you take out can be used for any purpose.

It can be used for college, but can also be used after college to finance large purchases like cars, to start a business, or to save for retirement. And the entire amount will have tax-preferred treatment with no fear of losing money to the stock market (money saved in a Cash Flow Banking system is guaranteed not to lose value).

For more information on Cash Flow Banking, you can [check out our comprehensive list of free resources here.](#)

The Bottom Line:

Stop paying for your kid's expenses and contributing to their college savings plan, and instead let them pay their own expenses. When you put them on the payroll you divert that income from your higher tax bracket into their lower tax bracket. And if you do it

right, it further reduces your taxes with a business deduction for the wages paid.

We've seen this strategy save clients thousands of dollars in taxes, and also change the lives of their families. Children begin to learn a work ethic, and it can draw a family together in ways never fathomed by small business owners. Talk to your CPA or Tax Attorney and get your kids to work for your business before it's too late.

Is It All Worth It?

Does the strategy of setting up a separate family management company to pay the children add a little extra complexity to the strategy? Sure. But no more complexity than having to withhold and submit payroll tax.

And if you have multiple children, the cost savings can be significant.

Is this an aggressive tax strategy? A so-called conservative CPA might say yes. However, it's also **perfectly legal** if you do it right. You're just changing the facts to match up with what the IRS code allows.

Remember, the tax code is primarily written to help people lower their tax. Legislators pass tax laws to give breaks to individuals and companies who engage in activities that benefit society and the economy.

And the tax courts agree individuals have the right to strategically use the tax code to their advantage to lower their tax burden. This includes applying multiple rules such as establishing a separate

family management entity rather than paying your children directly out of your S Corp.

The IRS doesn't care if you don't use the tax code to your full advantage. And they aren't going to help you find the strategies.

That's up to you.

But as enforcers of the law, neither are they going to deny you when you are fully prepared to defend your position. The key is to have a qualified tax strategist set up the plan and show you the rules to follow. Then, as long as you document everything carefully, there is nothing to fear with using so-called "aggressive" tax strategies.

Of course, be sure to discuss this strategy with your own tax team. If your CPA is uncomfortable with the strategy or calls it "too aggressive" or says it may send up "red flags," it may be time to search for a more competent CPA or tax attorney.

Some people have asked us if we can recommend a qualified CPA for them to use.

At Wealthy Factory, we do not currently give out CPA recommendations. Instead we have our own team of thoroughly vetted tax specialists you can access through our advanced Fast Track program, which you can [learn more about in our list of services here](#).

Why Don't We Offer CPA Recommendations?

It takes up to 9 months of vetting to join our accredited network of approved providers. We only want to work with people who we trust to do our own taxes. That means they have to not only be great at

tax strategy, they also must match our values and financial philosophy.

As a result, our vetting process is simply too exhausting for us to go through with a large number of CPAs. Instead, we choose to work with the few who have made it through the process.

If you want, you can see if working with our comprehensive financial network (known as The Accredited Network) is a good fit for you. You can get an introduction to them through our [free, 5-day mini-course here](#).

If not, [here's a short guide with the exact questions we use in our vetting process](#). You can use them to find a CPA who will be an asset to helping you build your wealth.

We sincerely hope you gained additional clarity on how to use this strategy to save taxes. Be sure to put it to work immediately, as it could save you thousands come tax time.