



What you need to know in New Jersey

Compliments of



We have partnered with GTM Payroll Services, and have arranged for you to receive a no obligation **FREE** tax & payroll consultation. GTM will inform you of what the IRS and the state of New York requires of both you and your employee. They will tell you of the forms that need to be filled out and filed and can even give you information on the tax calendar and how often you will be responsible for sending in your paperwork.

We work directly with Jonita Rodriguez, Tax & Payroll Sales Consultant for GTM. Call Jonita directly (888) 432-7972 ext. 7224. She will walk you through step by step, making sure you fully understand the different taxes you are responsible for. Jonita will also run a quick breakdown for you showing what your out of pocket liability will be. Feel free to ask her any questions you may think of regarding your employment process.

Am I a Household Employer?

If you are going to be hiring a household employee, it's important to understand your obligations as a household employer. You must file all applicable tax forms, Social Security, Medicare, federal and state unemployment insurances and income taxes. These obligations apply to all full-time and part-time employees that you employ and expect to pay over \$1,700 in the course of a calendar year.

What are my Tax Responsibilities as a Domestic Employer?

In New Jersey you will see four different taxes you are responsible for. These taxes will be added on top of the gross wage:

Social Security Tax with a tax rate of 7.65%

Medicare Tax with a tax rate of 1.45%

Federal Unemployment Tax with a tax rate of 0.8% which is only taxed on the first \$7,000 of gross wages each calendar year

State Unemployment Tax with a tax rate of 2.8% which is only taxed on the first \$28,900 of gross wages each calendar year

Initially you will be responsible for a total of 11.25% on top of the gross salary. Once you reach your thresholds your tax rate will drop down to just 7.65%

What does this mean?

Here is a quick example: Let's say you are thinking of paying your employee a gross salary of \$500.00 a week. All you will need to do is calculate \$500.00 times 11.25% and this will show you that you will have an additional liability of \$56.25 a week. So make sure you have a weekly budget of \$556.25. Once you reach your threshold your out of pocket expense would be \$500.00 times 7.65% which is \$38.25, so now your weekly budget is \$538.25.

Visit: www.GTM.com/gtm_household/tax_resource_center.html to use GTM's Nanny Tax and Overtime Calculators and do your own online calculation. As well as access to other essential tax information.

What taxes am I required to withhold from my employees gross wages?

At the very least you must withhold Social Security and Medicare taxes from your employees gross wages and make sure it is filed and paid on your employees behalf. It is the employer's choice to withhold federal and state* income taxes for the employee, according to IRS Publication 926. You should withhold federal income tax only if your household employee asks you to withhold it and you agree. *(GTM strongly recommends withholding income taxes from your employee's wages)*

Am I responsible for anything else besides taxes?

Yes. In New Jersey, if you have a part-time or full-time domestic employee, you are required to carry workers' compensation insurance. You can obtain this insurance through any insurance agent or broker who handles business insurance or through a direct writer of insurance. For additional information, the New Jersey Division of Workers' Compensation can be reached at 609-292-2414 or http://lwd.dol.state.nj.us/labor/wc/wc_index.html.

Am I responsible for paying my employee Overtime?

According to the **Federal Labor Standards Act (FLSA)** of 1938, household employees, who do not live with their employers are eligible to receive overtime **after forty hours of work** in one workweek (seven consecutive days). Household employees are covered by this act and are not exempt from this law (i.e. classified as "non exempt").

The employee must be paid at a rate of **not less than 1.5 times** their regular rate of pay. An employer cannot avoid paying overtime by averaging the number of hours worked over two (or more) weeks or by calling the employee a salaried worker, implying they are not subject to overtime. It does not matter if an employee is paid by salary, commission, or some other basis. Whichever way they are paid, the overtime pay has to be calculated on the average rate per hour derived from what they have earned in a week.

Do I receive any tax benefits?

Dependent Care Account—You should check if the company you work for allows you to contribute up to \$5,000 pre-tax dollars to a Dependent Care Account which is used towards paying your childcare or eldercare professional. This means extra money in your pocket since this \$5,000 is tax-free.

Childcare Tax Credit—If your company doesn't offer a Dependent Care Account option, you can still claim a tax credit for childcare on your income tax return (Form 2441). This typically amounts to 20-30% of qualifying childcare expenses that you can claim as tax-free. You may only count expenses of up to \$3,000 for one dependent or up to \$6,000 for two+ dependents.

ALSO: you can usually deduct tax preparation fees in the year you pay them. For example, on your 2008 return, you can deduct fees paid in 2007 for preparing your 2008 return. These fees include the cost of tax preparation software programs and tax publications. They also include any fee you paid for electronic filing of your return.

Note: these tax breaks only apply if the household employer is employing their employee LEGALLY with all state and federal taxes withheld and paid. Only one of the following two savings can be used each tax year. The one that yields better tax savings is usually the Dependent Care Account.

When paid legally, your employee

- has a legal employment history which is necessary for mortgages, car loans, student loans and future jobs
- may receive eligibility for important Social Security and Medicare benefits
- may receive eligibility for unemployment insurance coverage
- may receive eligibility for disability benefits
- can receive workers' compensation (this protects employee AND employer as well as the employer's assets!)
- may qualify for Earned Income Credit (see Form W-5 for qualification)

plus...You have PEACE OF MIND:

In recent years, the IRS has been cracking down on the illegal employment of household employees. It is generally considered tax evasion and offenders are subject to expensive back taxes, penalties and interest fines. In some instances, employers have even been stripped of professional licenses. When you work with GTM, we'll not only make sure you comply with current employment regulations, but we'll also **assume all liability** for timeliness and accuracy which will limit your exposure for a possible audit.

For more information, please call GTM at (888) 432-7972 or visit www.GTM.com