



BALANCED BOOKS

Bookkeeping & Consulting

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Employing Your Minor Child in Your Business:

Tax Benefits & Considerations

Hiring your child to work in your business can be a **great tax-saving strategy**, but the benefits vary depending on **business structure** (Sole Proprietorship, Partnership, S-Corp, or C-Corp). Below is a breakdown of **how each structure handles employment, taxes, and payroll considerations**.

1. Key Benefits of Hiring Your Minor Child

- ✓ **Income Shifting for Tax Savings** – Pay your child a salary, which is taxed at their lower tax rate instead of yours.
- ✓ **No Payroll Taxes (FICA) in Some Cases** – Sole proprietors & partnerships **don't have to withhold Social Security & Medicare taxes** when employing their children under **age 18**.
- ✓ **Standard Deduction Benefit** – In 2024, a child can earn up to **\$14,600 tax-free** (standard deduction) before paying **any federal income tax**.
- ✓ **Retirement Savings Opportunity** – Your child can contribute to a **Roth IRA** based on their earned income.
- ✓ **Business Expense Deduction** – Wages paid to your child are **fully deductible** as a business expense, reducing taxable income.

2. Business Structure Comparison: Hiring a Minor Child

Business Structure	Payroll Taxes (FICA - Social Security & Medicare)	Federal Unemployment Tax (FUTA)	Tax Deductibility	Best For
Sole Proprietorship	✓ Exempt if child is under 18	✓ Exempt if child is under 21	✓ Wages are a deductible business expense	Small family businesses
Partnership (Parents Only Partners)	✓ Exempt if child is under 18	✓ Exempt if child is under 21	✓ Wages are a deductible business expense	Husband/Wife-owned businesses
S-Corporation	✗ Not exempt – Must withhold Social Security & Medicare	✗ Not exempt – FUTA applies	✓ Wages are deductible, but payroll taxes must be paid	Larger businesses, high-revenue corps



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C-Corporation	✗ Not exempt – Must withhold Social Security & Medicare	✗ Not exempt – FUTA applies	✓ Wages are deductible, but payroll taxes must be paid	Formal corporations, growing businesses

3. How Payroll Taxes Work for Minor Children

- **Sole Proprietors & Parent-Only Partnerships:**
 - ✓ **No Social Security or Medicare (FICA) tax** for children under **18**.
 - ✓ **No Federal Unemployment (FUTA) tax** for children under **21**.
 - ✓ **State unemployment taxes (SUTA) vary**—check local rules.
- **S-Corps & C-Corps:**
 - ✗ **Must withhold Social Security (6.2%) & Medicare (1.45%)** like any other employee.
 - ✗ **Must pay employer's share of FICA (7.65%)** and FUTA.
 - ✓ **Still deductible as a business expense** but less tax-efficient.

💡 **Tip:** If hiring under an S-Corp or C-Corp, **consider a Sole Proprietorship-owned division** to maximize tax savings.

4. How Much Can You Pay a Minor Without Taxes?

2024 Tax-Free Earnings Example:

- 💰 **Up to \$14,600 tax-free** (standard deduction)
- 💰 **No federal tax withholding needed** (unless exceeding deduction threshold)
- 💰 **No FICA & FUTA (if sole prop or partnership with only parents)**

💡 Example:

- A **16-year-old** working 15 hours per week at **\$15/hour** earns **\$11,700 per year** → **100% tax-free!**
- If earnings exceed **\$14,600**, the child pays **10% tax on the next \$11,000** (lowest tax bracket).

5. Best Practices for Compliance

- ✦ **Pay a Reasonable Wage** – Must be **market rate** for the work done (e.g., admin, cleaning, marketing).
- ✦ **Have an Actual Job Description** – IRS requires **real work performed**.



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- ✦ **Keep Timesheets & Payroll Records** – Document hours worked like any employee.
- ✦ **Issue a W-2** – Even if no tax is owed, wages should be reported properly.
- ✦ **Consider a Roth IRA for Your Child** – Contributions **grow tax-free** for their future.

6. How to Set Up Payroll for a Minor

- 1 **Obtain a Work Permit (If Required)** – Some states require one for minors under **16 or 18**.
- 2 **Set Up Payroll Properly** – Use **Gusto, QuickBooks Payroll, or ADP** for compliance.
- 3 **No Tax Withholding Needed if Under Threshold** – Use a **W-4 Exemption** if wages are below **\$14,600**.
- 4 **Report Wages on a W-2** – Avoid using **1099-NEC** (IRS considers minors employees, not independent contractors).

7. Key Takeaways

- ✓ **Sole proprietors & parent-only partnerships get the biggest tax breaks**—no FICA or FUTA.
- ✓ **S-Corps & C-Corps must pay payroll taxes**, but wages are still deductible.
- ✓ **Children can earn up to \$14,600 tax-free**, reducing the family's tax burden.
- ✓ **Always document hours worked & issue a W-2** for compliance.
- ✓ **Hiring your child is a great way to fund a Roth IRA for their future!**