Spring & Co.
CERTIFIED PUBLIC ACCOUNTANTS

Tax & Business Alert

MAY 2024

THE ADVANTAGES OF HIRING YOUR MINOR CHILDREN FOR SUMMER JOBS

If you're a small business owner and you hire your children this summer, you may be able to obtain tax breaks and other nontax benefits. The kids can gain on-the-job experience, save for college and learn how to manage money. You may also be able to shift some of your high-taxed income into tax-free or low-taxed income. In addition, you could realize payroll tax savings (depending on the child's age and your business entity). Plus, your kids will spend time with you.

A LEGITIMATE JOB

If you hire your child, you'll get a business tax deduction for employee wage expenses. In turn, the deduction reduces your federal income tax bill, your self-employment tax bill (if applicable) and your state income tax bill (if applicable). However, for your business to deduct the wages as a business expense, the work performed by the child must be legitimate and the child's salary must be reasonable.

Let's say you operate as a sole proprietor in the 37% tax bracket. You hire your 16-year-old daughter to help with office work full-time during the summer and part-time in the fall. Your daughter earns $10,000 during 2024 and doesn't have any other earnings.

You save $3,700 (37% of $10,000) in income taxes at no tax cost to your daughter. That's because she can use her $14,600 standard deduction for 2024 to completely shelter her earnings.

Your family's taxes are lower even if your daughter's earnings exceed her standard deduction. Why? The unsheltered earnings will be taxed to her beginning at a rate of 10%, instead of being taxed at your higher rate.

HOW PAYROLL TAXES MIGHT BE SAVED

If your business isn't incorporated, your child's wages are exempt from Social Security, Medicare and federal unemployment taxes if certain conditions are met. Your child must be under age 18 for this to apply (or under age 21 for the federal unemployment tax exemption). Contact us to learn how this works.

STARTING EARLY MAKES A RETIREMENT GARDEN GROW

An early start on saving for retirement can be key to wealth building. A child who earns income from a job can contribute to a traditional IRA or a Roth IRA and begin funding a nest egg. For the 2024 tax year, a working child can contribute the lesser of his or her earned income, or $7,000, to a traditional or Roth IRA.

What if your business has a retirement plan? Depending on its terms, your child may qualify to begin earning retirement benefits that can grow for many decades. And the money may be tapped penalty-free for certain eligible reasons, such as paying education costs and making a down payment of up to $10,000 on a first home.

Be aware that there's no exemption for employing a child if your business is incorporated or is a partnership that includes nonparent partners. And payments for the services of your child are subject to income tax withholding, regardless of age, no matter what type of entity you operate.

KEEP ACCURATE RECORDS

Hiring your child can be a tax-smart idea. Be sure to keep the same records (such as timesheets and job descriptions) as you would for other employees to substantiate the hours worked and duties performed. Issue your child a Form W-2. Contact us with questions about how these rules apply to your situation. ■

3 WAYS YOUR BUSINESS CAN UNCOVER COST CUTS

Every business wants to cut costs, but it sure isn't easy. We're talking about clear and substantial ways to lower expenses, thereby strengthening cash flow and giving you a better shot at strong profitability.

Obvious places to slash costs — such as wages, benefits and overhead — often aren't viable options because the very stability of your operation may depend on them. But there might be other ways to lower expenses if you dig deeply enough. Here are three possibilities.

1. STUDY YOUR SUPPLIERS

Many companies find that just a few suppliers account for the bulk of their spending. By identifying these vendors and consolidating spending with them, you may be able to put yourself in a stronger position to negotiate volume discounts. This may also help to streamline the purchasing process.

On a related note, how well do you know your suppliers? It might be a good idea to conduct a supplier audit. This involves collecting key data regarding a supplier's performance to manage quality control and ensure you're getting an acceptable return on investment.

2. GO GREEN

Operating an environmentally friendly company is generally a good idea and it might save you money. Instead of purchasing brand-new computers and office equipment, you may find refurbished items at

substantial savings. Equipment and office furniture that you no longer need may be sold to a liquidator or dealer. You'll not only make some money, but also free up the space you're using to store and maintain them.

In addition, if you own the property on which you operate, research energy-efficient upgrades to the HVAC and lighting systems. Naturally, there will be an initial cost outlay, but over the long term, you may lower your energy costs. You might also qualify for tax credits for installing certain items.

3. EXPLORE OUTSOURCING AND TECH UPGRADES

Many business owners try to economize by doing everything in-house — from accounting to payroll to HR. But if the staffing and expertise just aren't there, these companies often suffer losses because of mistakes, mismanagement and wasted time. Although you'll obviously incur costs when outsourcing, the time and labor it saves you could end up being a net gain.

Carefully chosen and implemented technology upgrades can serve a similar purpose. Many products on the market today are so robust and fully featured, upgrading to them may be almost comparable to outsourcing. The same may be true with a customer relationship management system that can help generate sales leads and allow you to focus on your most profitable existing customers. Again, there will be an initial cost that could eventually lower your cost of doing business.

SNIP, SNIP, SNIP

Lowering expenses is often difficult, but keeping an eye out for ways to do it is important, especially now that inflation is a major factor in the economic landscape. Please contact us for help identifying and lowering your company's most "cuttable" costs. ■

TO GET AN "EARLY" REFUND, ADJUST YOUR WITHHOLDING

If you received a large refund this year, you may want to adjust your withholding. Each year, millions of taxpayers claim an income tax refund. To be sure, receiving a payment from the IRS for a few thousand dollars can be a pleasant influx of cash. But it means you were essentially giving the government an interest-free loan for close to a year, which isn't the best use of your money.

Fortunately, there's a way to begin collecting your 2024 refund now: You can review the amounts you're having withheld and any estimated tax payments you're making and adjust them to keep more money in your pocket during the year.

CHOOSING TO ADJUST

It's particularly important to check your withholding and/or estimated tax payments if:

- You received an especially large 2023 refund,
- You've gotten married, divorced or added a dependent,
- You've bought a home,
- You've started or lost a job, or
- Your investment income has changed significantly.

Even if you haven't encountered any major life changes during the past year, tax law changes may affect withholding levels, making it worthwhile to double-check your withholding and estimated tax payments.

MAKING A CHANGE

You can modify your withholding at any time during the year, or even more than once a year. To do so, simply submit a new Form W-4 to your employer. Changes typically will go into effect several weeks after the new Form W-4 is submitted. For estimated tax payments, you can adjust each time quarterly payments are due.

While reducing withholding or estimated tax payments will, indeed, put more money in your pocket now, you also need to be careful that you don't reduce them too much. If you don't pay enough tax throughout the year on a timely basis, you could end up owing interest and penalties when you file your return, even if you pay your outstanding tax liability by the April 2025 deadline.

GETTING HELP

One reason to consider adjusting your withholding is the passage of any new tax legislation. For example, several years ago when the Tax Cuts and Jobs Act was enacted, the IRS needed to revise withholding tables to account for the increased standard deductions, suspension of personal exemptions, and changes in tax rates and brackets. If you'd like help determining your withholding or estimated tax payments for the rest of the year, please contact us. ■

THE "NANNY TAX" MUST BE PAID FOR NANNIES *AND* OTHER HOUSEHOLD WORKERS

If you employ a household worker who isn't an independent contractor, you may be required to withhold from the worker's wages and pay Social Security and Medicare taxes, and possibly other taxes. You aren't required to withhold federal income tax.

Here's a brief rundown of your obligations. In 2024, when an employee's cash wages reach at least $2,700, you must withhold and pay Social Security and Medicare taxes. This applies to all cash wages.

The employee share, withheld from pay, is half the Social Security tax (6.2%) and half the Medicare tax (1.45%). You, the employer, pay the other half. You also must pay federal unemployment tax on wages of $1,000 or more. This tax is assessed only on the first $7,000 of wages paid.

To pay household worker obligations, increase your quarterly estimated tax payments or increase withholding from your wages. Your tax professional will report the Social Security and Medicare taxes you paid on Schedule H of your individual Form 1040 tax return. For Schedule H, you'll need to include your Employer Identification Number (EIN), which you can obtain by filing Form SS-4. However, if you own a business as a sole proprietor, you may include the tax for a household worker on your business employment reports, using your business EIN.

Having a household worker requires careful record-keeping. Keep track of every paycheck and report and include them in your tax records when we prepare your tax return. Contact us with questions. ■