

# Be Smart. Be Legal.

## The Benefits of Being Legal for Nannies

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An article in U.S. News and World Report listed being a nanny as one of the top ten professions in the country. The nanny profession provides higher salaries than any other segment of the childcare industry – daycare, in-home childcare, pre-school and sometimes teaching. Each of these forms of childcare is “on the books”. How can a career on the nation’s top ten list come without the benefits of being legal? Nannies are professionals in high demand, and salaries should come with the benefits of being legal.

### **Employee vs. Independent Contractor**

When the family you work for controls what work is done and how it is done, you are a household employee. When you can control how the work is done, you are an independent contractor. An independent contractor usually provides her own tools and offers services to the general public. Working for a family as a nanny, household manager, cook, caregiver, etc. means that you are a household employee. Why is this important? As a household employee, your employer is responsible for withholding your taxes from your pay and remitting them to the tax agencies throughout the year – hassle-free for you. In addition, your employer is required to pay taxes over and above your salary. Independent contractors are considered self-employed and are responsible for all taxes – employee and employer. Here are some examples:

1. Betty hires you to provide childcare 4 days a week in her home. Betty gives you specific instructions about childcare duties. Betty provides the household equipment and supplies (food, diapers, toys, etc.). You are Betty’s household employee.

2. You provide lawn services to 10 homeowners in a neighborhood. You provide your own lawn tools and supplies, and you hire helpers as needed. You are an independent contractor.

**A Real Life Example:** Susan worked for a family as a nanny for a year. Being paid “on the books” was never discussed. The family did not withhold taxes from Susan’s pay. At the end of the year, the family gave Susan Form 1099 and informed her that she was an independent contractor, making her responsible for all taxes during the year. Although Susan was the family’s employee rather than an independent contractor, she did not know this and paid a large sum of money in April to cover both employer and employee taxes. Don’t let this happen to you.

### **Be Smart. Be Legal.**

The benefits of being legal are numerous, and you really can’t afford to be without them. As a professional, you should expect nothing less. Once you take a look at the benefits, you’ll agree that being legal is the way to go!

**Employment History.** Being legal creates an employment history that is critical to daily life. If your employment is not documented, it is as if you do not work. An employment history is required for a car loan, a mortgage, a student loan, a credit card application, a health insurance application, an auto insurance application, future job applications, and the list goes on...

**A Real Life Example:** Jill earns \$2,000 per month as a nanny but is paid illegally. She and her husband applied for a mortgage on their first home. They did not qualify without her income. In order to

qualify, Jill had to put her salary “on the books” and wait 6 months before submitting a new loan application.

**Unemployment Insurance.** When paid legally, you are entitled to receive approximately 50% of your salary for up to six months if you lose your job due to no fault of your own. This benefit is free to you, as your employer pays the cost of the program.

**A Real Life Example:** Jane lost her \$450 per week job as a nanny when her family had a job-related move across the country. Jane receives \$225 per week in unemployment insurance benefits while she looks for a new job. Assuming it takes her the maximum 6 months to find a new job, she will receive \$5,850 in total benefits.

**Social Security/Medicare Benefits.** For many, taking advantage of these benefits is years away, but consider these tax withholdings as a good investment.

**A Real Life Example:** Barb earns approximately \$20,000 per year. During her career she contributes about \$38,000 to Social Security. At age 65, she will receive approximately \$175,000 in Social Security benefits during retirement, assuming she lives until age 85. That’s almost 5 times the amount she contributed during her working years! That’s a tremendous investment.

**Disability Benefits.** In many states, you pay State Disability Insurance as a part of the taxes withheld from your pay. If you must take time away from work due to nonoccupational illness or maternity leave, you are entitled to benefits while you are away from work.

**A Real Life Example:** Maria is a full-time nanny and is expecting a baby. Maria is planning to take several weeks maternity leave. Her employer plans to hire a temporary nanny while she is away and cannot afford to pay Maria during her leave. Maria plans to file for disability benefits to assist her during maternity leave.

**Workers’ Compensation:** In many states, household employer’s are required to purchase workers’ compensation for their employees. Workers’ Compensation assists in covering medical expenses and lost wages if you are injured on the job.

**-A Real Life Example:** Tanya worked as a nanny for a family for two years. The family she worked for did not purchase a worker’s compensation policy for Tanya. She was injured in a car accident while driving her charges to school. The other driver was at fault. Tanya was hospitalized for two weeks with additional weeks of physical therapy. She lost her job and was left without assistance during her recovery.

## Negotiating Salary

Negotiating salary “on the books” can have a positive result, if you are prepared. Your employers are professionals and are used to negotiating before-tax salaries, not take-home salaries. Here are a few examples to help you negotiate an acceptable salary:

Gross Salary:	\$1800.00 per month
Soc. Sec./Med.	(\$ 137.70)
Fed. Inc. Tax	(\$ 168.13)
<u>State Inc. Tax</u>	<u>(\$ 56.64)</u>
Total Withholding	(\$ 365.47) *approx. 20%
<b>NET PAY</b>	<b>\$1434.53</b>

Gross Salary:	\$1500.00 per month
Soc. Sec./Med.	(\$ 114.75)
Fed. Inc. Tax	(\$ 123.13)
<u>State Inc. Tax</u>	<u>(\$ 45.09)</u>
Total Withholding	(\$ 282.97) *approx. 19%
<b>NET PAY</b>	<b>\$1217.03</b>

\*Depending on your salary, filing status, and the state you live in, your total withholdings may be slightly higher or lower than 20% of gross salary, but 20% is an accurate starting point.

Being legal is not only the law, it also provides great benefits. You should receive the benefits due to you as a professional.

