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Hiring your Children to Work for your Business

Did you know that hiring your child to work for your business can result in a tax deduction for the business? Your child could then use some or all of the income to start an IRA. The rules are as follows:

- Your child must actually perform the services
- Your business must actually pay your child
- The services must be done in connection with your trade or business
- The wages must be reasonable in relation to the services performed
- Your business should keep detailed records regarding your child's employment

The goal is to reduce your business income while increasing your child's income. When the child reports the income, it may be taxed at a lower rate than the parents, if at all. Even though you may claim your child as a dependent, he/she is still entitled to a standard deduction of up to \$5,450 (for 2008) *and* a potential deduction for making an IRA contribution (\$5,000 maximum for 2008). There may also be a FICA and/or FUTA tax exemption depending on the business entity type and the age of your child.

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Monthly Tax Tip

There's no such thing as **free money** – be leery of IRS/State refund checks that you are not expecting.

If you receive a refund in error and cash or deposit the check, you may be surprised to find that the IRS or State may impose interest and/or penalty charges. You may not be able to simply **repay** the money free of **penalty** charges even if the error was made by the government.

The best solution is to contact us **before cashing the check**. In turn, we can help sort everything out. If an error was made, we can help you determine the best course of action for returning the payment.