

## WORK & FAMILY

# Family Secret: More Parents Are Avoiding the Nanny Tax

A funny thing happened on the way to the Internet age: A lot of parents stopped paying the nanny tax.

Household-employment tax filings for nannies and other domestic workers fell 10% in the five years ended in 2006, based on the latest Internal Revenue Service data—a period when the number of domestic employees actually rose, according to Labor Department data. Since 1996, filings are down 26%, to



By Sue Shellenbarger

225,441. Growth in online hiring, and the casual, cost-averse attitudes of parents who find their nannies on the Web, are among the causes, parents and industry sources say.

It's never wise to evade taxes, but the trend poses particular risks now. The slumping economy means more nannies are likely to be laid off and then file for unemployment benefits, drawing the scrutiny of tax regulators, attorneys say. Also, avoiding the taxes leaves nannies devoid of a safety net, including Medicare and Social Security benefits, in an era when they may need it

more than ever.

Of course, paying nanny taxes is about as much fun as having a root canal. People who pay household workers more than \$1,600 a year are required to file onerous paperwork to cover Social Security and Medicare taxes of 7.65% of gross pay; federal unemployment insurance of 0.8%; state unemployment insurance, usually of 2% to 4%, and other state and local taxes. The employee's share is another 7.65% for Social Security and Medicare, plus any state and local taxes. Many parents spend \$30 to \$70 a month to have a payroll service handle all the red tape.

In the past, parents more often hired full-time nannies through brick-and-mortar agencies, which often exerted arm-twisting to persuade both parents and nannies to pay taxes. Also, periodic derailings of presidential cabinet appointees over nanny-tax violations, including most recently failed Bush nominee Bernard Kerik in 2004, highlighted the hazards for scofflaws.

Of late, however, online hiring and a related trend toward more fluid, short-term and part-time nanny employment have damaged compliance, say Web-site operators, payroll managers, attor-

neys and nanny-agency owners. An estimated 30% to 50% of nanny hires are now done online, up from about 10% five years ago. In general, that may lead to "doing things a little more casually," says Monta Fleming, president of GoNannies.com, an employment site.

Care.com, another online nanny-placement service, has seen a 17% increase in part-time postings since a year ago, as parents "try to figure out how to save money," says founder Sheila Marcelo. Few parents think of providing benefits of any kind to part-timers; one New Hampshire mother says "it doesn't make sense" to go to all the trouble of withholding taxes for her part-time nanny.

Many nannies hired online assume they'll be paid cash. To avoid this, Marijo Montgomery, a Mullica Hill, N.J., parent, has begun specifying "no pay under the table" in nanny ads she posts online, she says.

In other cases, scofflaws employ undocumented immigrants. Still others simply don't see a payoff in filing taxes. After talking to a friend who does so, says a San Diego mother of two boys, "it sounded like a lot of work, and neither party wins—we pay more and the nanny gets less."

In truth, both parties stand

## Tackling Taxes

Resources for those who employ a nanny:

**'How to Hire a Nanny,'** by Guy Maddalone Guidebook covers tax issues.

**irs.gov** Search for Publication 926, Household Employer's Tax Guide.

**breedlove-online.com/faq**s Q&A on tax issues.

to lose from evading taxes. One parent who paid his nanny cash fired her last month, only to be found out by state officials after she filed for unemployment benefits, says Bob King, an attorney and founder of Legally Nanny, an

Irvine, Calif., employment-services firm. While nannies in these cases may find themselves on the hook for some back taxes, parents face a much larger hit, including both the nanny's and the employer's share of payroll taxes, plus interest and penalties.

Complying with tax laws, on the other hand, enables parents to set aside up to \$5,000 in pre-tax income for child-care expenses. It also extends to the nanny Social Security and Medicare benefits. "If parents really care about their nanny and love her, as so many families do," says Steve Lampert of eNannySource.com, an online search service, "then it's the right thing to do for her."

For other parents, it's even simpler. Although Dina Appleby, Kennett Square, Pa., and her husband don't enjoy paying nanny taxes, "we're both strong believers," she says, "in following the law."

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