



Community-Integrated Personal Assistance Services & Supports

You Are the Employer:

A Guide to Hiring and Managing Personal Assistant Services



Chapter Three

Tax Considerations

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LEARNING OBJECTIVES

AFTER COMPLETING MODULE 3, YOU WILL:

- **Explain your tax obligations as an employer of personal assistants.**
- **Describe deductions that are available to you for personal assistance services.**

INTRODUCTION

This chapter presents your responsibilities as an employer to ensure that your tax obligations are met. Tax considerations can change yearly. This module describes tax considerations for 2006.

This is ONLY a guide and does not replace the need to seek specific tax advice from a tax professional or a fiscal intermediary.

SECTION 1:

TAX CONSIDERATIONS & GENERAL INFORMATION

Tax considerations and procedures may vary depending upon the funding you receive for the costs of your supports. Funding requirements may also vary depending upon the waiver programs available for state programs. However, tax obligations are consistent throughout the nation and employers are required to pay specific employer taxes.

To hire personal assistants you must register yourself as an employer with both the state and federal government. The information regarding taxes in this module will explain what you need to do. If you are eligible for waiver programs you can get support from a fiscal intermediary who can work with you to do all necessary paperwork. This person can help you get specific information about your tax obligations and handle fiscal issues for you.

SECTION 2: EMPLOYMENT TAXES

THE FOLLOWING INFORMATION IS TO BE USED ONLY AS A GUIDE. PLEASE NOTE THIS INFORMATION MAY CHANGE FROM YEAR TO YEAR. THIS INFORMATION WAS OBTAINED IN 2006. CONSULT YOUR TAX PROFESSIONAL FOR INFORMATION THAT IS CURRENT AND SPECIFIC TO YOUR NEEDS.

There are some employment taxes that must be paid based on the amount of money paid to your employee. Employment taxes are calculated on cash wages, which include wages you pay by check, money order, etc. Cash wages do not include the value of food, lodging, clothing, and other non-cash items you provide for your household employee. However, cash you give your employee in place of these items is included in cash wages.

SOCIAL SECURITY AND MEDICARE WAGES

If your employee earns less than \$1,500 in cash wages you and your employee do not pay employment taxes. If your employee earns more than \$1,500 in cash wages, you and your employee need to pay social security and Medicare taxes. Both you and your employee pay these taxes: Your share is 7.65% (6.2% for social security tax and 1.45% for Medicare tax), and your employee's share is the same. You are responsible for payment of your employee's share of the taxes as well as your own. You can either withhold your employee's share from the employee's wages or pay it from your own funds. In most cases, the employee's share of the taxes is withheld from his or her paycheck. It is recommended that you withhold these taxes from each payroll period. You should follow the same process for all employees to make it easier for reporting purposes.

Withholding the Employee's Share




You can withhold the employee's share of the taxes even if you are not sure your employee's cash wages will be over \$1,500. If you withhold the taxes but pay the employee less than \$1,500 in cash wages for the year, you should repay the employee. If the employee earns \$1,500 or more in a calendar year, pay the amount withheld to the IRS with the equal matching amount for your share of the taxes. If you make an error by withholding too little, you should withhold additional taxes from a later payment. If you withhold too much, you should repay the employee.

FUTA WAGES

The other tax you need to pay is the Federal Unemployment tax (FUTA). If you pay cash wages to household employees over \$1,000 in any calendar quarter of 2006, the first \$7,000 of cash wages you pay to each household employee in 2006 or 2007 is FUTA wages. (The calendar quarters are January through March, April through June, July through September, and October through December.) If your employee's cash wages reach \$7,000 during the year, do not figure the FUTA tax on any wages you pay that employee over that amount for the rest of the year.

You are responsible for paying the FUTA; you do not withhold this money from your employee's wages.

Do not count wages you pay to any of the following individuals as FUTA wages.

-  Your spouse
-  Your child who is under the age of 21
-  Your parent

Please note that while FUTA and FICA (Federal Income Tax) taxes are not required from those mentioned above, state and federal taxes must still be withheld. Seek support from a tax professional for more information.

Do You Need to Withhold Federal Income Tax?

You are not required to withhold Federal income tax. However, it is strongly recommended so your employees do not have a large tax bill. The employee must give you a completed Form W-4, Employee's Withholding Allowance Certificate. Either of you may end the agreement by letting the other know in writing. If you agree to withhold Federal income tax, you are responsible for paying it to the IRS. Withhold Federal income tax from each payment based on the filing status and exemptions shown on your employee's Form W-4.

Figure Federal income tax withholding on cash and non-cash wages you pay. (Non-cash wages may include meals or clothing.) Measure wages not paid in cash by the fair market value of the non-cash item.

HOW TO MAKE TAX PAYMENTS

When you file your Federal income tax return, there are two choices of IRS forms. If you are employed and plan to claim the costs you pay out of pocket for personal assistance services as an impairment related business expense, use Form 941. If you are not employed, and plan to claim the costs you pay out of pocket as a medical expense, attach the IRS Schedule H, Household Employment Taxes, to your Form 1040. You will use Schedule H to figure your total household employment taxes (social security, Medicare, FUTA, and withheld Federal income taxes). Add these household employment taxes to your income tax and pay the amount due. You can avoid owing tax with your return if you pay enough tax during the year to cover your household employment taxes, as well as your income tax. You can pay the additional tax in any of the following ways:

- Ask your employer to withhold more Federal income tax from your wages.
- Ask the payer of your pension or annuity to withhold more Federal income tax from your benefits.
- Make estimated tax payments to the IRS.
- Increase your payments if you already make estimated tax payments.

ASKING FOR MORE FEDERAL INCOME TAX WITHHOLDING

If you are employed and want more Federal income tax withheld from your wages to cover your household employment taxes, give your employer a new Form W-4, Employee's Withholding Allowance Certificate. Complete it as before, but show the additional amount you want withheld from each paycheck on line 6. If you receive a pension or annuity and want more Federal income tax withheld to cover household employment taxes, give the payer a new Form W-4P, Withholding Certificate for Pension or Annuity Payments (or a similar form provided by the payer). Complete it as before, but show the additional amount you want withheld from each benefit payment on line 3. Get Publication 919, "How Do I Adjust My Tax Withholding," to make sure you will have the right amount withheld. It will help you compare your total expected withholding for 2006 with the combined income tax and employment taxes that you can expect to figure on your 2006 return

PAYING ESTIMATED TAX

If you want to make estimated tax payments to cover household employment taxes, get Form 1040-ES, "Estimated Tax for Individuals." You can use its payment vouchers to make your payments by check or money order. You may be able to pay by direct debit (automatic withdrawal) or credit card. You can pay all the employment taxes at once or you can pay them in installments. If you have already made estimated tax payments, you can increase your remaining payments to cover the employment taxes. Estimated tax payments for 2006 are due April 17, June 15, and September 15, 2006, and January 16, 2007.



UNEMPLOYMENT COMPENSATION REQUIREMENTS

All employers of one or more persons (full or part-time) must file an Employer Status Report. Employers can register by completing the appropriate forms, obtained by calling the Employer Status Unit: (860) 263-6550. These forms and others, including the Quarterly Unemployment Compensation Tax forms, Correction Returns, and Separation Packets, and this Employer's Guide can also be accessed at the Labor Department website at www.ctdol.state.ct.us.

Employers who file their contribution returns on paper are mailed a quarterly pre-addressed Employer Contribution Return. This is a two-part form. The lower part (Form UC-2) is the Employer Contribution Return used to compute the amount of contributions due, based on reported taxable wages. The upper part (Form UC-5A) is the Employee Quarterly Earnings Report used to show, in detail, the employee's Social Security number, name, and total earnings in the quarter. Form UC-5B is the Employee Quarterly Earnings Report continuation sheet.

The Employer Contribution Return must be completed and forwarded, with a check for contributions due to the "Administrator, Unemployment Compensation" on or before the last day of the month following the close of the calendar quarter. When the due date falls on a Saturday, a Sunday, or a legal holiday, the return is due on the next business day. A penalty of \$50 or ten percent, whichever is greater, is charged on contributions not paid within thirty days of their quarterly due dates. The official date of receipt is determined as in the previous paragraph regarding interest.

FORMS TO FILE

You must file certain forms to report your personal assistant's wages and the Federal employment taxes for the employee if you pay any of the following employee taxes on wages:

- Social security and Medicare
- FUTA
- Federal income tax

The employment tax forms and instructions you need for 2006 will be sent to you automatically in January 2007 if you reported employment taxes for 2005 on Schedule H (Form 1040), Household Employment Taxes.

These forms will ask for your Employer identification number (EIN), which is a 9-digit number issued by the IRS that identifies you as an employer. It is not the same as a social security number. You ordinarily will have an EIN if you previously paid taxes for employees, either as a household employer or as a sole proprietor of a business. You must include your EIN on the forms you file for your household employee. If you do not have an EIN, you need to get Form SS-4, Application for Employer Identification Number from the IRS. The instructions for Form SS-4 explain how you can get an EIN immediately by telephone or in about 4 weeks if you apply by mail. In addition, the IRS is now accepting applications through its website at www.irs.gov/businesses/small.

Form W-2

You will need to file a separate 2006 Form W-2, Wage and Tax Statement for each household employee to whom you pay either of the following wages during the year:

- Social security and Medicare wages of \$1,500 or more
- Wages from which you withhold Federal income tax

Complete Form W-2 and give Copies B, C, and 2 to your employee by January 31. You must send Copy A of Form W-2 with Form W-3, Transmittal of Wage and Tax Statements, to the Social Security Administration by February 28 (April 12 if you file your Form W-2 electronically). Most employers may file Forms W-2 electronically (see www.socialsecurity.gov/employer for more information). If you have a fiscal intermediary and you hire personal assistants at your own expense, you will need to report your own information and provide W-2's and other tax requirements for these services. It will help to talk to a tax professional and your fiscal intermediary to determine the best way to report the information.

If an employee stops working for you before the end of the year, you can file Form W-2 and provide copies to your employee immediately after you make your final payment of wages. You do not need to wait until the following year. If the employee asks you for Form W-2, give it to him or her within 30 days after the request or the last wage payment, whichever is later.

Schedule H

Use Schedule H (Form 1040), Household Employment Taxes, to report household employment taxes if you pay any of the following wages to the employee and do not use Form 941:

- Cash wages of \$1,500 or more
- FUTA wages
- Wages from which you withhold Federal income tax

File Schedule H with your Federal income tax return by April 15. If you get an extension it will apply to your Schedule H.

Filing options when no return is required:

If you are not required to file a tax return, you have the following two options.

1. You can file Schedule H by itself.
2. If you have other employees for whom you report employment taxes on Form 941 or Form 943 and on Form 940 (or 940–EZ), you can include your taxes for your personal assistant on those forms.

Business Employment Tax Returns

If you pay your personal assistant as a business expense, include the social security, Medicare, and withheld Federal income taxes for the employee on the Form 941, Employer's Quarterly Federal Tax Return, you file for your business. Include the FUTA tax for the employee on your Form 940 (or 940–EZ), Employer's Annual Federal Unemployment (FUTA) Tax Return.

Do not use Schedule H (Form 1040) if you choose to pay the employment taxes for your personal assistant with business employment taxes.

RECORDS YOU MUST KEEP

Keep copies of Schedule H, Form 941 or other employment tax forms you file and related Forms W-2, W-3, W-4. You must also keep records to support the information you enter on the forms you file. If you must file Form W-2, you will need to keep a record of your employee's name, address, and social security number. All employers are required to maintain accurate records of employment. These records must be available for inspection during normal business hours by Field Auditors, Revenue Agents, and other authorized representatives of the Department of Labor. Keep all employment tax records for at least 4 years after the due date of the return on which you report the taxes or the date the taxes were paid, whichever is later.

New Hires

Effective October 1, 1998, employers conducting business in Connecticut are required to report all new hires to the Department of Labor within 20 days of the date of hire. This information is used to assist the Department of Social Services in the enforcement of child support obligations. The Department of Labor may also use this information in a manner consistent with its governmental powers and duties.

To report a hire to the Connecticut Department of Labor, do one of the following:

Fax a copy of the CT-W4 (Employees Withholding or Exemption Certificate) with all employer information clearly completed to Fax # 1-800-816-1108

Mail a copy of the CT-W4 (Employees Withholding or Exemption Certificate) with all employer information clearly completed to:

Connecticut Department of Labor
Office of Research, Attn: CT-W4
200 Folly Brook Boulevard
Wethersfield, CT 06109

*For alternate reporting options, including magnetic reporting,
please call (860) 263-6310.*

Wage and Tax Records

On each payday you should record the date and amounts of all the following items:

- Your employee's cash and non-cash wages.
- All employee social security tax you withhold or agree to pay for your employee.
- All employee Medicare tax you withhold or agree to pay for your employee.
- All Federal income tax you withhold.
- All state employment taxes you withhold.

Employee's Social Security Number

You must keep a record of your employee's name and social security number exactly as they appear the social security card if you pay the employee either of the following:

- Social security and Medicare wages of \$1,500 or more.
- Wages from which you withhold Federal income tax.

You must ask for your employee's social security number no later than the first day on which you pay the wages. It is recommended that you ask for it when you hire your employee. An employee who does not have a social security number must apply for one on Form SS-5, Application for a Social Security Card. An employee who has lost his or her social security card should apply for a new card.

How Long to Keep Records

Keep your employment tax records for at least 4 years after the due date of the return on which you report the taxes or the date the taxes were paid, whichever is later.

TAX RESOURCES

You can get help with unresolved tax issues, order free publications and forms, questions, and get more information from the Internal Revenue Service (IRS) in several ways. Select the method that is best for you, for quick and easy access to tax help.

- **Personal computer.** You can access the IRS online at www.irs.gov.
- **TaxFax Service.** Using the phone attached to a fax machine, you can receive forms and instructions by calling 703-368-9694. Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.
- **Phone.** Information and other services are available by phone.

To order current and prior year forms, instructions, and publications call 1-800-829-3676

To ask tax questions call the IRS at 1-800-829-1040

Take advantage of Everyday Tax Solutions service by calling your local IRS office to set up an in-person appointment at your convenience. Check your local directory assistance or www.irs.gov for the numbers.

To access the IRS using TTY/TDD equipment call 1-800-829-4059 to ask tax questions or to order forms and publications.


To use TeleTax topics call 1-800-829-4477 to listen to pre-recorded messages covering various tax topics.

Walk-in.

Many products and services are available on a walk-in basis at your local IRS office.

Forms, instructions, and publications are available in many post offices, libraries, and IRS offices. Some IRS offices, libraries, grocery stores, copy centers, city and county governments, credit unions, and office supply stores have an extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.

You can walk in to your local IRS office to ask tax questions or get help with a tax problem. Now you can set up an appointment by calling your local IRS office number and, at the prompt, leaving a message requesting Everyday Tax Solutions help. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience.

 **Mail.** You can order forms, instructions, and publications from the Distribution Center nearest to you and receive a response within 10 workdays after your request is received. Find the address that applies to your part of the country:

Western U.S.:

Western Area Distribution Center
Rancho Cordova, CA 95743-0001

Central part of U.S.:

Central Area Distribution Center
P.O. Box 8903
Bloomington, IL 61702-8903

Eastern part of U.S. and foreign addresses:

Eastern Area Distribution Center
P.O. Box 85074
Richmond, VA 23261-5074

- **CD-ROM for tax products.** You can order IRS Publication 1796, Federal Tax Products CD-ROM to obtain information. The CD-ROM can be purchased from National Technical Information Service (NTIS) by calling 1–877–233–6767 or online at www.irs.gov/cdorders. The first release is available in early January and the final release is available in late February. The CD-ROM includes: Current tax forms, instructions, and publications

Current tax forms, instructions, and publications

Prior-year tax forms and instructions

Popular tax forms that may be filled in electronically, printed out for submission, and saved for recordkeeping

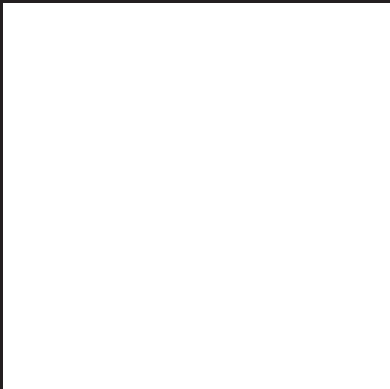
Internal Revenue Bulletins

INFORMATION ON OTHER PAYROLL-RELATED MATTERS IS AVAILABLE FROM THESE SOURCES:

Dept. of Revenue Services: WWW.DRS.STATE.CT.US

Workers' Compensation Coverage: WCC.STATE.CT.US

NOTE: IT IS YOUR RESPONSIBILITY TO SEEK OUT ADDITIONAL INFORMATION AND COMPLETE APPROPRIATE FORMS AS REQUIRED. DO NOT USE THIS GUIDE AS THE ONLY INFORMATION YOU OBTAIN TO ANSWER QUESTIONS. SEEK OUT ADDITIONAL SUPPORT!



The University of Connecticut
A.J. Pappanikou Center for Excellence
In Developmental Disabilities
Education, Research and Service