

# Ask the Tax Expert

Frequently Asked Questions About Household Employment Taxes

By Stephanie Breedlove, founder of Austin-based Breedlove & Associates, the nation's leader in tax & payroll services for household employers



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**Q: The nanny I'm about to hire doesn't have health insurance and would like to have it be a part of her compensation package. How does that work?**

**A:** Good news! Health insurance premiums are a non-taxable form of compensation, meaning neither you nor your nanny would have any taxes on that portion of her compensation. Therefore, there is a significant financial advantage to both of you if part of your compensation to her goes toward a health insurance premium.

Here's how the tax math works. Let's say you pay your employee \$2,500 per month in "straight" (taxable) wages. Her "take-home pay" after taxes would be roughly \$2,075 per month (it may be a few dollars higher or lower depending on her personal tax situation). If she then buys a health insurance policy on her own and pays \$300 per month, her after-tax "disposable" income is \$1,775 per month.

Alternatively, if you pay the same \$2,500 per month, but it includes the health insurance contribution (i.e. \$2,200 in taxable wages plus \$300 in health insurance contributions), her after-tax disposable income is \$1,850 per month.

So, in this illustration, your nanny sees a real gain of \$75 per month (or \$900 per year) and your taxes as an employer are reduced by about \$25 per month (or \$300 per year) – simply by having healthcare contributions managed through the payroll process. It's a win-win situation.



If you have any questions about health insurance or how to set it up so you can take advantage of these tax breaks, just give us a call. As a client of Morningside Nannies, we're happy to provide a complimentary phone consultation and guide you through all the financial and legal aspects of being a household employer.

*Founded in 1992 — by household employers for household employers — Breedlove & Associates is a full-service, full-support tax & payroll service. They have served more than 11,000 clients and processed more than \$1 billion in household payroll. By focusing on the unique needs of household employers, Breedlove & Associates' expertise and efficiency has been recognized in The Wall Street Journal, Kiplinger's, Business Week and SmartMoney.com. For more information or a free phone consultation compliments of Morningside Nannies, call 1-888-273-3356 or visit [www.breedlove-online.com](http://www.breedlove-online.com).*