2026 GUIDE · FEDERAL PAYROLL RULES

Hiring Your Child

How to pay your child from your business the right way, and what it saves

The one-minute answer

If you own a business and your child does real work for it, you can pay a fair wage. The wage is a business expense for you and earned income for your child. Whether Social Security, Medicare and FUTA apply depends on **who owns the business** and **how old the child is**.

Who owns the business	Child under 18	Child 18 to 20	Child 21+
Sole proprietor parent (incl. a 1-owner LLC not taxed as a corporation)	**No SS/Medicare No FUTA**	SS/Medicare apply **No FUTA**	**All apply**
Partnership where every partner is a parent of the child	**No SS/Medicare No FUTA**	SS/Medicare apply **No FUTA**	**All apply**
S corporation, C corporation, or partnership with any non-parent partner	**All apply**	**All apply**	**All apply**

"All apply" = Social Security and Medicare (7.65% from the business + 7.65% withheld from the child) and FUTA. Federal income tax withholding rules apply at every age.

> **Why families do it:** in 2026 a child with no other income can earn up to the **$16,100** standard deduction without owing federal income tax, and the wage can fund an IRA for the child (up to the lesser of pay or $7,500).

What is in this kit

- **Excel planner**: type 4 yellow boxes, read the green savings estimate
- **Scenarios tab**: three example families compared step by step
- **Timesheet + Pay Log**: records that show the work was real; the Pay Log flags the 18th birthday
- **Year-end checklist**: 15 tasks with due dates (W-2 by February 1, 2027)

Step 1 · Which payroll taxes apply?

Follow the questions from top to bottom. The Planner tab does the same check automatically.

Q1. Is the business owned only by the child's parent(s)? (sole proprietorship, 1-owner LLC not taxed as a corporation, or a partnership of the parents)

No (S corp, C corp, other partners) → Social Security, Medicare and FUTA all apply. Run normal payroll.

Yes → go to Q2

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Q2. Is the child under 18 when paid?

Yes → no Social Security or Medicare, and no FUTA.

No → Social Security and Medicare apply. Go to Q3.

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Q3. Is the child under 21?

Yes → FUTA does not apply.

No → FUTA applies (0.6% on the first $7,000 after the usual state credit).

Step 2 · Estimate the savings (example A)

EXAMPLE values: sole proprietor parent, child age 15, $12,000 of wages, parent in the 22% bracket, $90,000 business profit.

Line	Math	Amount
Parent's income tax saved	$12,000 × 22%	$2,640.00
Parent's self-employment tax saved	$12,000 × 92.35% × 15.3%	$1,695.55
Payroll taxes on the child's pay	Exempt (under 18, parent-owned)	$0.00
Child's federal income tax	$12,000 is below the $16,100 standard deduction	$0.00
Estimated family tax savings		**$4,335.55**

Spreadsheet formula you can type yourself: `=B1*B2 + B1*0.9235*0.153` (B1 = wages, B2 = your bracket). Use 2.9% instead of 15.3% if your self-employment earnings are already above the $184,500 Social Security wage base.

Three example families

All values are EXAMPLES from the Scenarios tab. Federal taxes only.

Line	A: Sole prop, age 15	B: S corp, age 16	C: Parents' partnership, age 19
Wages	$12,000	$12,000	$16,100
Parent's bracket	22%	24%	22%
SS + Medicare (business share)	$0	$918.00	$1,231.65
SS + Medicare (withheld from child)	$0	$918.00	$1,231.65
FUTA	$0	$42.00	$0
Income tax saved by the deduction	$2,640.00	$3,110.40	$3,812.96
Self-employment tax saved	$1,695.55	n/a	$464.17 (2.9%)
Child's federal income tax	$0	$0	$0
Estimated family savings	**$4,335.55**	**$1,232.40**	**$1,813.83**

What the examples show

- **A** gets the full benefit: no payroll taxes and two kinds of tax saved by the parent.
- **B** still saves, but an S corporation pays and withholds Social Security, Medicare and FUTA at any age.
- **C** is 19: Social Security and Medicare apply, FUTA does not (under 21). The parent's profit is above the wage base, so only the 2.9% Medicare part of self-employment tax is saved.

How the child's income tax works

For a dependent, the 2026 standard deduction is the larger of $1,350 or earned income plus $450, but not more than $16,100. With wages only, the child owes no federal income tax up to $16,100. Above that, the 10% bracket applies up to $12,400 of taxable income, then 12%.

> Type it yourself: `=MIN(16100, MAX(1350, B1+450))` gives the child's standard deduction; `=MAX(0, B1 - that)` gives taxable income.

Step 3 · Set it up the right way

1. **Write a short job description.** Age-appropriate business tasks: filing, scanning, cleaning the shop, stocking, social media photos, data entry.
2. **Set a fair rate.** Pay what you would pay an unrelated person for the same work. Keep the total realistic for school-year hours.
3. **Paperwork on day one.** Form W-4 and Form I-9, like any employee. Report the new hire to your state if your state requires it.
4. **Keep a timesheet.** Date, task, start and end time, approved by. The Timesheet tab totals hours and pay.
5. **Pay from the business account** by check or direct deposit into an account in the child's name. Avoid cash.
6. **Run it through payroll.** Include the wages on Form 941 (or 944). If the family rule applies, do not withhold Social Security or Medicare.
7. **Record each payday** in the Pay Log. It checks the child's age on every pay date.
8. **Year end.** Give the child Form W-2 and file Form W-3 with the Social Security Administration by February 1, 2027.

> **Household chores are not business wages.** Allowance for chores at home, or "wages" for work that was never done, do not count. Only pay for real work for the business.

Where the numbers go on Form W-2 (family rule applies)

W-2 box	What to enter
Box 1 Wages	Total wages paid in 2026
Boxes 3-6 Social Security / Medicare	Leave blank when the child is exempt
Box 2 Federal income tax withheld	Whatever was withheld based on the child's W-4 (often $0)

Edge cases and common mistakes

Situation	What happens
Child turns 18 during the year	The exemption stops for pay after the birthday. Enter the birth date in the Pay Log; later rows show "Withhold".
LLC taxed as an S corporation	No family rule. Treat it as an S corporation in the Planner.
Partnership with a non-parent partner	No family rule, even if one partner is a parent.
Grandchild, niece or nephew	The parent-child rule does not apply. Run normal payroll.
Child is 21 or older	Social Security, Medicare and FUTA all apply.
Pay is far above the market rate	The excess may not be deductible. Keep pay reasonable for the work.
Child also has investment income	Investment income follows separate rules; the Planner assumes wages are the only income.
Federal income tax was withheld	The child can file a return to get it back if no tax is owed.

Common mistakes

- Paying in cash with no timesheet or pay record.
- Claiming the family rule for an S corporation or C corporation.
- Forgetting the Form W-2 because "no tax was withheld".
- Paying for a full year of work in one December check without records of the work.
- Ignoring state rules: child labor hours, work permits, state unemployment and state income tax.

> **State rules vary.** Federal child labor law has a parental exemption for many jobs, but not for hazardous work, and your state may be stricter. Check your state labor department before the first shift.

Deadlines and year-end checklist

Date	What
Before December 31, 2026	Work done and wages paid for 2026 (pay dates count, not promises)
February 1, 2027	Form W-2 to the child, Form W-3 + Copy A to SSA (January 31 is a Sunday)
February 1, 2027	Form 941 for October-December; Form 940 if FUTA applies
April 15, 2027	Child's 2026 return if required or to claim a refund; last day for a 2026 IRA contribution

- ☐ Business type confirmed (family rule only for parent-owned businesses)
- ☐ Job description and fair rate written down
- ☐ W-4, I-9 and state new-hire report done
- ☐ Timesheet kept for every shift
- ☐ Paid from the business account; Pay Log up to date
- ☐ Wages included on Form 941 / 944
- ☐ W-2 and W-3 filed by February 1, 2027
- ☐ State child labor, unemployment and tax rules checked

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Privacy: no SSNs, bank account numbers or passwords are needed. Do not enter them in the workbook.

Sources: IRS, Family Employees (irs.gov/businesses/small-businesses-self-employed/family-employees); IRS Publication 15 (2026); IRS 2026 inflation adjustments (Rev. Proc. 2025-32); IRS IR-2025-111 (2026 IRA limit); IRS Publication 926 (2026) for the February 1, 2027 W-2 date.

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