A 10-MINUTE READINESS CHECK

The 10-Minute Hire-Your-Child Tax Checklist

Use this to decide if your child-wage strategy is legitimate, defensible, and worth implementing.

Best for: business owners with real work their child can actually perform

Not for: anyone trying to relabel allowance as payroll

QUICKSTART

Check each box honestly. If you can complete this checklist and your answers are mostly yes, you likely have a workable starting point.

If you hit multiple no answers, stop before running payroll. That usually means the issue is not tax strategy. It is documentation, entity structure, or lack of real business work.

THE AHA MOMENT

The deduction does not survive because you paid your child. It survives because your file looks like any other real employee file. *That is the whole game.*

Part 1 Fit Check

- [ ] My business has real, recurring tasks a child can actually perform.
- [ ] The work is for the business, not for my household.
- [ ] I am willing to treat my child like a real employee.
- [ ] I am willing to keep timesheets, payroll records, and proof of work.
- [ ] My plan does not depend on “we’ll make it make sense later.”

Part 2 Entity Check

- [ ] My business is a sole proprietorship or single-member LLC taxed as a sole proprietorship, and I understand this is the classic setup for the family payroll tax break.
- [ ] Or, my business is a partnership where each partner is a parent of the child.
- [ ] If there is any non-parent partner, I am not assuming I get the family FICA exemption.
- [ ] If my business is an S-corp or C-corp, I am assuming normal payroll taxes apply.
- [ ] I understand the strategy can still make sense in a corporation, but that regular payroll taxes will still apply.

Part 3 Work Check

- [ ] I can clearly describe the job in one sentence.
- [ ] The work is age-appropriate.
- [ ] The business would otherwise need someone to do this work.
- [ ] I can point to actual deliverables, tasks, or output.
- [ ] The role is more than "being around while I work."

USUALLY GOOD EXAMPLES

- [ ] Filing, scanning, or shredding business documents
- [ ] Inventory counting, labeling, and packing
- [ ] Cleaning a real business space
- [ ] Sorting photos, tagging files, uploading listings
- [ ] Content support for older kids with actual skills

USUALLY BAD EXAMPLES

- [ ] Household chores
- [ ] Babysitting siblings
- [ ] Random one-off "modeling" with no real campaign or rate support
- [ ] Paying for vague presence instead of actual work

Part 4 Wage Check

- [ ] I set a wage based on comparable local rates.
- [ ] I saved 1–2 screenshots or notes showing how I picked the rate.
- [ ] The pay is reasonable for the child's age, skill, and tasks.
- [ ] I can explain the wage without a long story.
- [ ] I am using hourly pay unless I have a very good reason not to.

If the rate sounds impressive but hard to defend, it is probably too high.

Part 5 Paperwork Check

- [ ] I have a job description.
- [ ] I have an offer letter or employment agreement.
- [ ] I have a completed W-4.

- [ ] I have a completed I-9.
- [ ] I have the business set up to run real payroll.

Part 6 Documentation Check

- [ ] I am using weekly timesheets.
- [ ] Each timesheet shows dates, hours, tasks, and approval.
- [ ] I am keeping proof of output.
- [ ] My proof of output includes items like folders, drafts, checklists, photos, logs, or inventory sheets.
- [ ] My records are created as the work happens, not rebuilt later.

Part 7 Payment Check

- [ ] I am paying on a normal schedule such as weekly, biweekly, or monthly.
- [ ] I am not planning one big year-end check.
- [ ] I am not making random undocumented payments.
- [ ] Wages will go into an account titled to the child or a properly titled custodial account.
- [ ] The money flow does not look circular or gift-like.

Part 8 Tax Benefit Reality Check

- [ ] I understand the main deduction is for legitimate wages paid for legitimate work.
- [ ] I understand that in the right unincorporated parent-owned setup, wages paid to a child under 18 are generally not subject to FICA.
- [ ] I understand that in that same setup, wages paid to a child under 21 are generally not subject to FUTA.
- [ ] I understand the wage deduction can also reduce Schedule C net income, which may reduce self-employment tax.
- [ ] I understand wage-only income for a dependent child is often sheltered enough to produce little or no federal income tax, but filing may still be appropriate.
- [ ] I understand earned income can support a Roth IRA contribution, which is often one of the biggest long-term benefits.

Part 9 Red Flag Check

- [ ] I am not trying to turn allowance into wages.
- [ ] I am not paying for household chores.
- [ ] I am not using inflated wages because “my kid is talented.”
- [ ] I am not relying on thin corporate workarounds just to manufacture payroll tax savings.
- [ ] I am not creating the documentation after the fact.

Your Audit File Checklist

If the IRS asked questions, this is the file you want ready:

- ☐ Dated job description
- ☐ Signed employment paperwork
- ☐ Weekly timesheets
- ☐ Payroll reports
- ☐ Bank proof showing deposit to the child or custodial account
- ☐ Wage support screenshots or notes
- ☐ W-4 and I-9
- ☐ Proof of output
- ☐ Copies of checks or direct deposits
- ☐ W-2, W-3, and payroll filings

Score Your Readiness

35+
BOXES CHECKED
You likely have a strong foundation for a legitimate child-wage strategy.

25–34
BOXES CHECKED
Potentially workable, but you probably have one or two risk areas to clean up before implementation.

Under 25
BOXES CHECKED
Do not rush this. The problem is probably not tax law. It is setup, records, or lack of real business substance.

Common Mistakes That Kill the Deduction

- ✕ No timesheets
- ✕ No proof of output
- ✕ Excessive pay
- ✕ Assuming every entity gets the same payroll tax treatment
- ✕ Year-end lump-sum "wages"
- ✕ Paying through the parent's account
- ✕ Calling personal activity business work

Next Step

Finish this checklist before you run payroll. Then do these 3 things:

1. Create the job description
2. Set a wage you can defend
3. Build the weekly tracking system

Want Help Getting This Right?

If you want help reviewing your entity setup, wage reasonableness, payroll treatment, or audit file before you implement, the next step is a tax planning review. A quick review now is much cheaper than defending a bad setup later.

Book Your Tax Planning Review →

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