HERIJ TAXES

7 Tax Benefits of Hiring Family Members in Your Business

A Herij Taxes bonus guide for business owners who put family to work

TAX YEAR 2026 · FILING SEASON 2027

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If your family is already helping you run the business, it may be time to talk about putting them on payroll.

Maybe your teenager packs orders after school. Maybe your spouse handles invoicing and follows up with clients. Or maybe your college student comes home for the summer and takes over a project you were about to pay someone else to do.

That's real work. And when you pay family members for real work, there may be tax benefits for both your business and your household. But here's where people get tripped up: The rules depend on who you hire, how old they are, and how your business is taxed. What works for a sole proprietor hiring a 16-year-old may not work for an S corporation hiring that same child.

Let's walk through seven potential benefits—and what to get right before you run that first payroll.

TAX YEAR 2026 AT A GLANCE (filed in 2027)

- Standard deduction (single): $16,100
- IRA / Roth IRA limit: $7,500
- FUTA: 6.0% on first $7,000 per employee
- Q4 2026 Form 941, W-2s: due Feb 1, 2027
- Roth IRA funding deadline: April 15, 2027
- Social Security wage base: $184,500

1. Deduct wages for work your business actually needs

When a family member does legitimate work for your business, reasonable wages can generally be deducted just like wages paid to any other employee. That could mean paying your daughter to pack orders or your spouse to manage scheduling. For a sole proprietor, the deduction may reduce both taxable business profit and the income subject to self-employment tax.

The key word is *reasonable*. Start with what you'd pay someone who isn't related to you for the same work. The amount your child needs for tuition or a car isn't what determines their paycheck.

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2. Save on Social Security and Medicare taxes when you hire your child

If your child is under 18 and works for your sole proprietorship or a partnership in which every partner is a parent of the child, their wages are generally exempt from Social Security and Medicare taxes.

That exemption generally doesn't apply when the employer is a corporation, including an S corporation, or when a partnership has a partner who isn't the child's parent. And if you have an LLC, don't stop at the letters after your business name. How the LLC is treated for employment tax purposes matters.

3. Get a separate federal unemployment tax break

Federal unemployment tax, or FUTA, has a different age cutoff. Under the qualifying parent-owned business structures above, your child's wages are generally exempt from FUTA until age 21.

Here's why that matters: If your 19-year-old comes home from college and works in your qualifying business, their wages may be subject to Social Security and Medicare taxes but still exempt from FUTA. State unemployment rules can be different, so don't assume the federal exemption carries over.

4. Put earned income in a lower tax bracket

Instead of keeping all the income as business profit, you're paying some of it to the person who helped earn it. If that person is your child and they have little or no other income, they may owe little or no federal income tax on their wages, depending on their standard deduction and total income.

One detail worth checking: Paying your spouse doesn't automatically move income to a lower tax bracket if you file jointly. Run the numbers for the household, including payroll taxes and any state taxes, before assuming there's a net savings.

5. Give your child a head start with a Roth IRA

A paycheck can do more than cover spending money. When your child earns legitimate wages, that income can make them eligible to contribute to a Roth IRA. A minor can generally use a custodial Roth IRA, subject to the annual contribution limit ($7,500 for 2026) and the amount of eligible compensation they earned.

There's no upfront tax deduction for a Roth IRA contribution, but qualified withdrawals are tax-free. If your teenager earns $3,000 in 2026 and wants to save part of it for the long term, those wages give them a way to start investing years before their first full-time job.

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6. Make retirement benefits part of a family member's compensation

If your business sponsors a retirement plan and your family member qualifies under its rules, their wages may allow them to participate. Depending on the plan, that could include employee contributions, employer contributions, or both. Eligible employer contributions may also be deductible to the business.

This can be especially useful when a spouse works in the business and doesn't have a retirement plan through another job. Just remember: Your plan's eligibility and contribution rules still apply, including any requirements to cover other eligible employees.

7. Offer health or other benefits with favorable tax treatment

In the right setup, a bona fide family employee may qualify for employer-provided health coverage or a properly structured reimbursement arrangement. Depending on the business structure and the benefit, the business may get a deduction and the employee may be able to exclude the benefit from taxable wages.

This is one to plan before you reimburse anyone. Business owners and their relatives can be subject to special rules, particularly in an S corporation. Paying a family medical bill from the business account doesn't automatically make it a deductible employee benefit.

Before you put family on payroll

Give them a clear job description, set a rate you can explain, and keep records of the hours they work and the wages you actually pay. Then make sure your payroll setup accounts for withholding, W-2 reporting, state rules, and any child labor requirements that apply. A payroll tax exemption is not an exemption from keeping records or following employment rules.

Frequently Asked Questions

Can I pay my child a lump sum at the end of the year?

The timing doesn't turn the payment into a deduction. You still need to show what work was performed, how you arrived at the amount, and that you followed applicable payroll and wage-payment rules. Set the job, pay rate, and pay schedule before the work starts.

Do the same payroll tax breaks apply if I hire my niece, nephew, or grandchild?

Not simply because they're family. The exemptions discussed here are for qualifying parent-child employment. You may still be able to deduct reasonable wages for real work, even when the payroll tax exemptions don't apply.

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Can I hire my child if I own an S corporation?

Yes. Your corporation can generally deduct reasonable wages for legitimate work, but the parent-child exemptions from Social Security, Medicare, and FUTA generally don’t apply when the corporation is the employer.

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Where to go from here

Hiring family can be a smart move when you have work that needs to get done and a family member who can do it. The tax benefits come from setting it up correctly—not from putting someone's name on payroll and sorting it out at filing time.

You may have downloaded this guide, read it, and set it aside. That's normal. Here is your path back, so you don't lose the bigger goal that brought you to Herij Taxes.

1. **Read this guide**
   You have it now: seven ways family payroll may lower your taxes.
2. **Go back to HerijTaxes.com**
   Find the Free Download section and request your Wealth Navigation Tax Roadmap.
3. **Get your personal note**
   Our team sends your Roadmap with a short note about your situation.
4. **Follow the Herij Taxes newsletter**
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Your free Wealth Navigation Tax Roadmap is waiting at HerijTaxes.com. Request it in the Free Download section, and joining the Herij Taxes newsletter is how it reaches you. When you're ready to talk, bring your business structure, who you're thinking about hiring, and what you'd pay them to do.

YOUR NEXT STEP IS ONE TEXT AWAY

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