
FOR BUSINESS OWNERS



Hiring Your Children

S&S Payroll Services

Sept 29, 2025

Business owners should consider hiring their kids. If you are self-employed and have children that are old enough to work, consider adding them onto your company payroll. Below are 5 key tax benefits and retirement planning opportunities that families will qualify for when shifting earned income within the family by hiring their children as employees of their small business.

Income received up to the federal standard deduction is tax-free. Thus, for 2025, the first \$15,000 of wages paid to your child are federally tax-free income to your employed child. Because the 2025 standard deduction is \$15,000, this allowed federal tax deduction will offset the wages paid to your child and no federal taxes would be owed from the paid wages up to this threshold. And the wages paid to your children from your business is an allowed business expense (tax deduction) reducing the business owner's taxable income and resulting taxes. A great tax planning strategy to reduce a family's overall taxes!

The wages paid to your child can be contributed to a Roth IRA. Wages are considered earned income for IRA contribution qualification purposes. A taxpayer can contribute annually to a Roth IRA subject to earned income limits. For 2025, the maximum IRA contribution is the lesser of earned income or \$7,000. Starting retirement planning at such a young age will help introduce your child to good financial habits. Additionally, the invested retirement funds have the potential to grow immensely over your child's lifetime.

For your college age kids, the wages paid by your business to your kids can be used to pay their higher education expenses. Thus, a small business owner would indirectly be getting a tax deduction for payments to their children's colleges as well as for private schools.

Depending on what type of retirement plan you may have in place for your company, the wages paid to your children may also qualify them to be in your business's retirement plan. Not only would you be decreasing your income taxes by deducting a larger business expense related to the retirement plan contribution for your kids, but you would also be increasing your family's overall retirement planning opportunity and tax deferral of income.

If your business is set up as a Schedule C (sole proprietor or single-member LLC), the wages paid to your children that are under age 18 are not subject to social security or Medicare taxes. This payroll tax savings for the family can be as high as 15.3% of the wages paid to your children, in addition to the income taxes saved. Additionally, if your child is under age 21, your child is also exempt from federal and state unemployment taxes paid by the company.

A few considerations when paying your children. Document the work being performed by your children and maintain a log of their actual hours worked per pay period. They should be doing actual work based upon the business needs and the child's abilities. Be sure the hourly rate paid to your children is reasonable and not overly excessive for the work they are hired to do. And pay your children at the same time that you pay other employees and on the same pay cycle. At year-end, you will need to issue a W-2 to each employed child as well. In the eyes of the IRS, record-keeping is key in order to accurately document that the payments to your children truly qualify as a valid business expense for the work they performed. Consequently, if your business is ever audited by the IRS, the IRS will want to confirm that both the work completed by your children and the total hours worked by your children for the period under audit are true and accurate.