Hiring Your Child in the Family Business

Decision Readiness Checklist

Purpose

Hiring children in a family business can create valuable opportunities for:

• Work experience

• Financial responsibility

• Retirement savings

• Education funding

• Family involvement

However, the arrangement must be legitimate, properly documented, and structured appropriately.

This checklist is designed to help determine whether hiring a child makes sense and whether the business is prepared to do so correctly.

The goal is not simply creating a tax deduction.

The goal is creating a legitimate employment relationship that benefits both the business and the child.

Business Readiness

Does the business have legitimate work available?

☐ Yes

☐ No

Potential duties may include:

☐ Administrative work

☐ Filing

☐ Data entry

☐ Social media

☐ Cleaning

☐ Photography or video

☐ Inventory

☐ Website updates

☐ Other business tasks

What business entity operates the business?

☐ Sole Proprietorship

☐ Single-Member LLC (Disregarded Entity)

☐ Husband-and-Wife Partnership

☐ Partnership with Other Owners

☐ S Corporation

☐ C Corporation

Is the child capable of performing the work?

☐ Yes

☐ No

☐ Unsure

Have job duties been documented?

☐ Written job description

☐ Informal description

☐ Not Yet

Documentation & Payroll

Will hours be tracked?

☐ Time sheets

☐ Payroll software

☐ Written records

☐ Not Yet

Is compensation reasonable?

☐ Yes

☐ No

☐ Unsure

Consider:

☐ What would be paid to an unrelated employee?

☐ Is compensation tied to actual work performed?

Have you reviewed the payroll tax rules that apply to your business structure?

☐ Yes

☐ No

☐ Not Yet

Will payroll be processed correctly?

☐ W-4 completed

☐ I-9 completed

☐ Payroll system established

☐ W-2 expected

☐ Not Yet

Have you reviewed Washington State employment requirements?

☐ Labor & Industries reviewed

☐ Paid Family & Medical Leave reviewed

☐ Unemployment rules reviewed

☐ Not Yet

Financial Readiness

Is compensation being paid directly to the child?

☐ Yes

☐ No

☐ Not Yet

Does the child have a method for receiving compensation?

☐ Bank account established

☐ Custodial account established

☐ Other arrangement

☐ Not Yet

Have you considered Roth IRA opportunities?

☐ Yes

☐ No

☐ Not Yet

Have you considered how employment supports broader family goals?

☐ Financial responsibility

☐ Saving habits

☐ Investing experience

☐ Education funding

☐ Work ethic and accountability

☐ Not Yet

Quick Self-Assessment

Strong Foundation

☐ Legitimate work exists

☐ Job duties documented

☐ Hours tracked

☐ Compensation reasonable

☐ Payroll procedures established

☐ Family goals identified

☐ Roth opportunities considered

Needs Additional Review

☐ No written duties

☐ No time records

☐ Payroll rules unclear

☐ Entity-specific implications not reviewed

☐ State employment requirements not reviewed

☐ Family goals not discussed

Consider Professional Review

☐ S Corporation ownership

☐ Multiple-owner business

☐ Significant wages

☐ Roth IRA planning opportunities

☐ State employment compliance questions

☐ Uncertainty regarding payroll tax treatment

Potential Next Steps

☐ Create written job description

☐ Establish payroll procedures

☐ Create time-tracking process

☐ Review entity-specific payroll tax rules

☐ Review Washington employment requirements

☐ Open Roth IRA

☐ Develop savings and investing plan

☐ Discuss financial responsibility expectations

☐ Schedule a Family Employment Review

Final Readiness Question

If the IRS reviewed this arrangement tomorrow, could you clearly demonstrate:

☐ The work performed

☐ The hours worked

☐ The compensation paid

☐ Why the compensation was reasonable

☐ That payroll was handled correctly

If the answer is yes, the arrangement is more likely to be viewed as a legitimate business relationship rather than simply a tax strategy.

Disclaimer

This Checklist is intended for educational and planning purposes only. It is not legal, tax, accounting, investment, or financial advice.

Every situation is unique. Tax laws, financing options, and business circumstances vary. Before making significant business, tax, or financial decisions, consult with your professional advisors regarding your specific situation.

Use this Checklist as a framework for thoughtful decision-making, not as a substitute for professional advice.

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