Hiring Your Child in the Family Business

Clarity Map

Purpose

Hiring a child in the family business can create opportunities for business support, financial education, retirement savings, and long-term wealth building.

This Clarity Map is designed to help business owners evaluate whether family employment makes sense and how to approach it thoughtfully.

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.

Who Should Care?

You should care about this topic if you:

☐ Own a business

☐ Have children old enough to perform meaningful work

☐ Want to teach financial responsibility

☐ Want to introduce children to business ownership

☐ Are looking for Roth IRA or education funding opportunities

☐ Are evaluating family wealth-building strategies

What Is The Decision?

Hiring your child is the decision to bring a family member into the business as a legitimate employee.

The decision is not:

"How do I reduce taxes?"

The decision is:

"Can my business provide meaningful work, reasonable compensation, and valuable experience for my child?"

The best family employment arrangements create value for both the business and the child.

What Problem Is Hiring a Child Solving?

Family employment typically addresses one or more goals.

Business Support

Question

"Does the business have legitimate work that needs to be done?"

Examples:

☐ Filing

☐ Data entry

☐ Social media

☐ Cleaning

☐ Inventory management

☐ Website updates

☐ Administrative assistance

The work should create value for the business.

Financial Education

Question

"What lessons do I want my child to learn?"

Examples:

☐ Work ethic

☐ Responsibility

☐ Saving

☐ Investing

☐ Budgeting

☐ Tax awareness

For many families, this becomes a child's first meaningful financial education experience.

Wealth Building

Question

"How can earned income create future opportunities?"

Potential opportunities include:

☐ Roth IRA contributions

☐ Long-term investing

☐ Education savings

☐ Financial independence habits

The tax benefit is often secondary to the long-term compounding opportunity.

What Factors Matter?

Legitimate Work

Question

"Does the business actually need the work performed?"

The IRS generally expects:

☐ Real work

☐ Real value

☐ Real responsibilities

The work should benefit the business.

Age & Capability

Question

"Can the child reasonably perform the work?"

Tasks should match:

☐ Age

☐ Skill level

☐ Maturity

☐ Experience

The younger the child, the more important appropriate job selection becomes.

Reasonable Compensation

Question

"What would I pay someone else to perform this work?"

Compensation should reflect:

☐ Duties

☐ Hours worked

☐ Market rates

The goal is fairness, not maximizing deductions.

Documentation

Question

"Can I demonstrate what happened?"

Examples:

☐ Job descriptions

☐ Time sheets

☐ Payroll records

☐ Work product

Good records create clarity.

Entity Structure

Question

"How is the business organized?"

This matters because payroll tax treatment may differ depending on whether the business is:

☐ Sole Proprietorship

☐ Single-Member LLC

☐ Partnership

☐ S Corporation

☐ C Corporation

The same child may receive different tax treatment depending on the entity.

This is one reason entity structure should be considered before implementing a family employment strategy.

Educational Goals

Question

"What am I hoping my child learns?"

Possibilities include:

☐ Responsibility

☐ Communication

☐ Professionalism

☐ Customer service

☐ Saving

☐ Investing

☐ Entrepreneurship

These lessons often become more valuable than the tax savings.

Information Worth Gathering

Before hiring a child, gather:

☐ Age of child

☐ Job duties

☐ Estimated hours

☐ Proposed compensation

☐ Entity structure

☐ Payroll requirements

☐ State employment requirements

☐ Roth IRA eligibility considerations

Common Mistakes

Mistake #1

Hiring the child only for tax savings.

Tax benefits follow legitimate employment.

Not the other way around.

Mistake #2

Paying unreasonable wages.

Compensation should be tied to actual work.

Mistake #3

Failing to track hours.

Good documentation protects everyone involved.

Mistake #4

Ignoring payroll requirements.

Children are often employees.

Employment rules still matter.

Mistake #5

Treating the arrangement informally.

The business relationship should be documented.

Mistake #6

Missing the educational opportunity.

The greatest value often comes from the lessons learned, not the tax deduction.

Questions People Often Ask

How young can my child be?

There is no universal age requirement under federal tax law.

The key question is whether the child can legitimately perform the work.

Can I pay my child and contribute to a Roth IRA?

Often yes.

Earned income may create Roth IRA contribution opportunities.

Does the business get a deduction?

Generally, reasonable compensation for legitimate services is deductible.

Do payroll taxes apply?

It depends in part on the business entity and the child's age.

Entity structure matters.

What is the biggest mistake?

Paying wages without documenting actual work performed.

A Simple Family Employment Framework

Step 1

Identify legitimate work.

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Step 2

Determine whether the child can perform it.

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Step 3

Establish reasonable compensation.

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Step 4

Document duties and hours.

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Step 5

Process payroll correctly.

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Step 6

Consider Roth IRA and savings opportunities.

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Step 7

Use the experience to teach financial responsibility.

Potential Next Steps

Green Light

☐ Legitimate work exists

☐ Child capable of performing duties

☐ Compensation reasonable

☐ Documentation planned

☐ Payroll understood

Yellow Light

☐ Duties unclear

☐ Compensation uncertain

☐ Payroll rules not reviewed

☐ Roth opportunities not considered

Red Light

☐ No legitimate work

☐ No documentation

☐ Compensation based solely on tax goals

☐ Employment requirements ignored

Final Reflection

Imagine your child looks back on this experience ten years from now.

What do you hope they remember?

• Learning how to work

• Earning their first paycheck

• Opening their first Roth IRA

• Understanding how money works

• Developing confidence and responsibility

Or simply:

• A tax strategy

If the first list feels more important, you are likely approaching family employment from the right perspective.

Disclaimer

This Clarity Map 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.

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