Family Employment Compliance Checklist

Paying Your Kids Through Your Business — The Right Way

Purpose

This checklist ensures your family employment arrangement is properly documented, compliant with tax and labor laws, and defensible in case of IRS scrutiny. Complete each section before paying wages to your child.

Section 1: Pre-Setup Requirements

Complete before hiring your child

- ☐ Confirmed business entity type (Schedule C, Partnership, S-Corp, or C-Corp)
- ☐ Understood payroll tax implications for my entity type (see reference table below)
- ☐ Verified child meets minimum age requirements for intended work
- ☐ Confirmed work is business-related (not personal household chores)
- ☐ Researched comparable market rates for similar work
- ☐ Consulted with tax advisor on strategy implementation

Payroll Tax Reference by Entity Type

Business Type	Child's Age	FICA (SS & Medicare)	FUTA
Sole Proprietorship (Schedule C)	Under 18	**Generally NOT subject**	**Under 21: NOT subject**
Partnership (parent-only)	Under 18	**Generally NOT subject***	**Under 21: NOT subject***
S-Corp or C-Corp	Any	**Generally SUBJECT**	**Generally SUBJECT**

*Only if every partner is a parent of the child. Mixed-owner partnerships lose this exemption.

Section 2: Job Description Setup

Document real, business-related duties

- ☐ Created written job description (use template below)
- ☐ Job duties are age-appropriate for the child
- ☐ All duties are ordinary and necessary business activities
- ☐ Hourly rate is reasonable for the work and local market
- ☐ Work schedule is documented and consistent

Job Description Template

Employee Name:	
Job Title:	

Business Name:	
Hourly Rate:	$
Hours per Week:	
Start Date:	

Job Duties (list specific tasks):

1. ____________________
2. ____________________
3. ____________________
4. ____________________
5. ____________________

Acceptable Job Duties (Examples)

- Office cleaning, shredding, scanning, filing
- Updating CRM contacts, basic administrative tasks
- Product labeling, inventory counts
- Social media assistance (photos, basic edits, drafting captions)
- Light website tasks (uploading blog posts, formatting)
- Real estate: unit prep, supply runs, landscaping coordination

Section 3: Payroll Setup

Establish formal payroll process

- ☐ Obtained completed Form W-4 (federal withholding elections)
- ☐ Obtained completed Form I-9 (work eligibility verification)
- ☐ Set up state withholding (Virginia Form VA-4 or equivalent)
- ☐ Added child to payroll system (Gusto, QuickBooks Payroll, etc.)
- ☐ Set up direct deposit or payroll check payment method
- ☐ Confirmed classification as W-2 employee (not 1099 contractor)
- ☐ Verified payroll tax settings match entity type exemptions

Section 4: Documentation Requirements

Maintain records to support legitimacy

- ☐ Written job description on file
- ☐ Signed employment agreement (optional but recommended)
- ☐ Time tracking system established (use template below)
- ☐ Work samples collected (before/after photos, posts drafted, files scanned)
- ☐ Pay rate justification documented (comparable market rates)
- ☐ Payroll reports saved for each pay period

☐ Bank statements showing payments from business account

Weekly Time Tracking Template

Employee: ___________________ Week of: ___________________

Date	Start Time	End Time	Total Hours	Tasks Performed
Monday				
Tuesday				
Wednesday				
Thursday				
Friday				
Saturday				
Sunday				
		Weekly Total:		

Employee Signature: _________________________ Date: _____________

Parent/Supervisor Signature: _________________________ Date: _____________

Section 5: Youth Employment Compliance

Required for minor employees

☐ Verified child meets minimum age for job duties (federal + state)

☐ Reviewed permitted work hours for child's age

☐ Confirmed job duties are allowed for minor employees

☐ Obtained Employment Certificate if required by state (Virginia may require for certain ages)

☐ Documented compliance with school attendance requirements

Virginia Youth Employment Quick Reference

- **Ages 14-15:** Limited hours and prohibited occupations apply
- **Ages 16-17:** Fewer restrictions, but some hazardous work prohibited
- **Employment Certificate:** Required for minors under 16 in Virginia

Note: Parent-owned businesses may have additional exemptions. Verify current rules with Virginia Department of Labor.

Section 6: Ongoing Compliance

Maintain throughout employment

☐ Time sheets completed and signed each pay period

☐ Payroll run on regular schedule (not ad hoc transfers)

☐ Work samples collected periodically

☐ Year-end: W-2 issued by January 31

☐ Year-end: File W-3 with Social Security Administration

☐ Child's tax return filed if required (or refund claimed)

☐ Annual review: Adjust pay rate if duties or market rates change

Bonus: Roth IRA Contribution Opportunity

Once your child has earned income, they may be eligible to contribute to a Roth IRA. For 2026, the annual IRA contribution limit is **$7,500**.

- Contribution cannot exceed child's earned income for the year
- Parents can fund the Roth IRA on behalf of the child (if child has sufficient earned income)
- Tax-free growth for decades — powerful wealth-building tool

Common Mistakes to Avoid

Mistake	What to Do Instead
Paying for household chores (not business)	Only pay for business-related work
Overpaying ($30/hr for basic filing)	Pay market rate for the work performed
Just transferring money (no payroll)	Run through formal payroll system
Ignoring youth employment rules	Verify age, hours, and duty restrictions
Using 1099 when child is an employee	Classify as W-2 if you control work
Assuming S-Corp has same tax breaks	Understand entity-specific rules first

Next Steps

Ready to implement family payroll the right way? Schedule a planning call to review your entity structure and design a compliant family employment strategy.

Book Your Planning Call:

www.thervaaccountant.com/contact-us

Disclaimer: *This checklist is for educational purposes only and does not constitute tax, legal, or accounting advice. Tax rules vary by entity type, state, and individual circumstances. Consult with your tax advisor before implementing any strategy discussed here.*