



Employment of Family Members

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Rural Tax Education

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- Website hosted by Utah State University
- Material created by the **National Farm Income Tax Committee**
- Informational Material on Ag, Timber, and Rural Tax topics include but not limited to:
 - Farm Losses and Hobby Rules
 - Self-Employment Taxes
 - Estate and Gift Taxes
 - Depreciation
 - Tax planning
 - Etc...

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Disclaimer

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This information changes...often.

This is educational information, not tax or legal advice. Information is based on material from LGUTEF, Ruraltax.org, and IRS. Please be a good consumer of professional services.



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Resources



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The screenshot shows the Rural Tax Education website. The header includes navigation links: "The Topics", "Small Farm Tax Guide", "Farm Income Tax Estimator Tool", "Resources", "About Us", and "Contact". The main banner reads "RURAL TAX EDUCATION" and is sponsored by the Rural Farm Income Tax Education Committee. The content area includes a section on "Understanding the Worksheet Filing Requirement" and a "Tax Topics" section with links to "All Tax Topics", "Structure", "Income", "Deductions", "Credits", "Estate", "Gift", "Charitable", "Retirement", "Estate Planning", "Estate", "Gift", "Charitable", "Retirement", "Estate Planning". A "Webinars" section lists a "New Webinar: How to Use the Worksheet Filing Requirement" dated April 15, 2024. The footer features "Rural Tax Resources" with links to "Contact Us", "Builds", "Small Farm Tax Guide", and "Farm Income Tax Estimator Tool".

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Topics

- Employment of Children by their parents
- Spouses working for each other
- Business Structures involving family members
- Reporting and withholding requirements
- Deductibility of wages paid to family members



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Introduction

- Overview of family labor in farm operations
- Key focus: income tax and regulatory aspects
- Challenges in navigating regulations



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Understanding Payroll Taxes

- Taxes applicable to wages paid to family employees
- Overview of Social Security (FICA), Medicare, federal income tax withholding
- Federal and state unemployment taxes (FUTA/SUTA)
- Exemptions for certain family members

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Business Entities Used in the Farming Operation

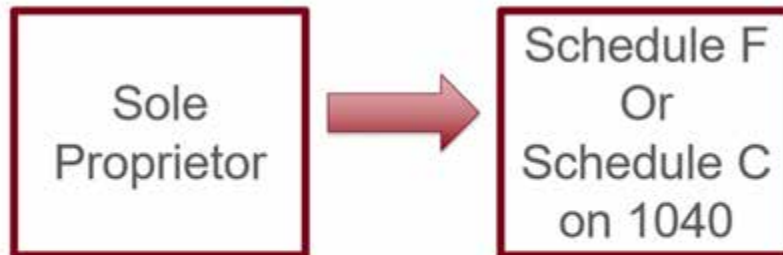
- Sole Proprietorship
- Qualified Joint Venture
- General Partnership
- Limited Liability Company
- Limited Liability Partnership
- Limited Partnership
- Family Limited Partnership
- C Corporation
- S Corporation

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Sole Proprietorship



- Sole Proprietor reports business income on his/her personal tax return

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Sole Proprietorship

- Owner does not pay wages to self
- W-2 Issued to employees
- **Wages paid to children**
 - Bona Fide Employer-Employee Relationship
 - Reasonableness of Compensation
 - Actual Payment and Proper Documentation
 - Deductibility Under the Internal Revenue Code
 - Tax Treatment for the Child
 - Payment in Kind
 - No Deduction for Personal or Household Services
 - Will get into other family members on later slide

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FICA/Medicare

- Federal Withholding
 - Determined by W-4
- FICA/Medicare Withholding
 - FICA and Medicare Withholding = (15.3%)(12.5 % OASDI & 2.8% Medicare)(OASDI cap is \$176,100 for 2025)
- FUTA/SUTA
 - Under the Federal Unemployment Tax Act (FUTA), wages are subject to a tax rate of 6.0% for the first \$7,000 of each employee's earnings for the year. The tax is imposed on the employer only, and is not withheld from the employee's wages.
 - SUTA runs through your individual state.
 - State credit against tax. Employers are allowed a state credit against the FUTA tax for amounts that are paid into state unemployment funds. The credit may be as much as 5.4% of FUTA taxable wages.

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Employer Exempt from Withholding – Unincorporated Business

Employer Exempt from Withholding			
Type of Employment/Payment	Federal Withholding	FICA	FUTA
Child under age 18 employed by parent	Withhold	Exempt	Exempt
Child age 18 – 20 employed by parent	Withhold	Taxable	Exempt
Parent employed by child	Withhold	Taxable	Exempt
Spouse employed by spouse	Withhold	Taxable	Exempt

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Employer Exempt from Withholding

- Child under age 18 employed by parent
 - Parent-employer as a sole proprietor or partnership if each partner is a partner.
 - LLCs and Corporations are not eligible for special family employment tax rules
 - Exception: Single Member LLC (Considered a disregarded entity)
- Child age 18 – 20 employed by parent
 - Parent-employer as a sole proprietor or partnership if each partner is a partner.
 - LLCs and Corporations are not eligible for special family employment tax rules
 - Exception: Single Member LLC (Considered a disregarded entity)
- Parent employed by child
- Spouse employed by spouse

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Payroll Tax Considerations for Family Members

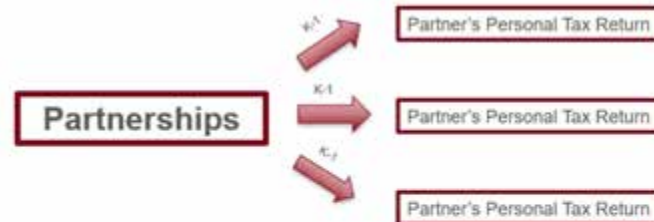
- Exemptions for children under 18 in unincorporated business
- FUTA exemptions for children under 21
- Special rules for partnerships
 - For employment of children, parents must be the ONLY partners
- Payroll tax obligations for siblings and other relatives

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Partnerships



- Partner's share of profits (loss) passes from a partnership to the individuals' return(s)
- No income tax is paid at the partnership level
- All business income subject to self employment tax

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Partnerships

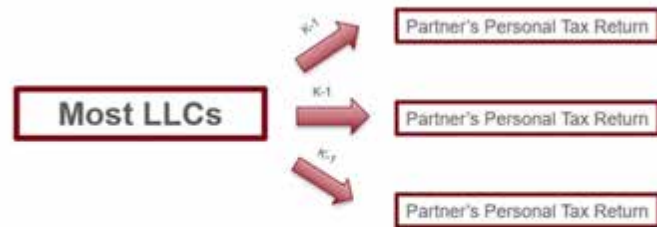
- Partner does not get W-2
 - Income distributed via K-1
- Partner may receive Guaranteed Payment to Partner
- Employees receive W-2
- Employee guidelines same as listed on Sole Proprietor slide

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LLCs



- Earnings from LLC subject to Self-Employment Tax

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LLCs

- LLC owners do not receive a W-2.
- Most cases, income is reported via K-1
- Children do not receive beneficial treatment in an LLC compared to S.P. and Partnership.

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C Corporation



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C Corporation

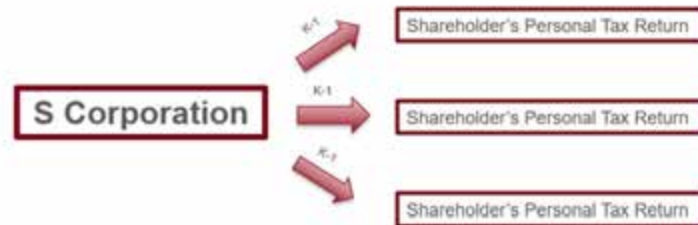
- Typically, shareholders will receive a W-2 from the Corporation.
- Shareholders may also receive land rent or dividends, which are reported on a 1099.
- No preferential treatment for family members.

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S Corporation



- Earnings from LLC subject to Self-Employment Tax
- S Corp must pay shareholders a salary.
 - IRS does have some resources for determining appropriate salary
 - IRS Reasonable Compensation Job Aid for IRS Valuation Professionals (October 29, 2014)

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S Corporation

- Profits from Corporation are reported to shareholders via K-1.
- Shareholders are required to be paid a wage/salary (reported on W-2).
- Other employees of the Corporation also receive a W-2.
- No preferential treatment for family members.

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State vs. Federal Regulations

- Differences between state and federal labor laws
- “Most Protective Standard” approach for employers
 - Minimum wage
 - Overtime
- Importance of verifying compliance with both agencies

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Becoming and Employer

- Employer responsibilities: Issuing Form W-2, withholding payroll taxes
- Requirements for an Employer Identification Number (EIN)
- State registration requirements



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Children and Child Labor Laws

- Parental exemptions from child labor laws
 - Check with your individual state
- Special considerations when hiring non-dependent children
 - Both Federal and State rules
 - Most Protective Standard applies
- Importance of checking both state and federal laws

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Documentation Requirements

- Importance of completing Form I-9 (Employment Eligibility Verification)
- Role of Form W-4 for income tax withholding
- Compliance obligations for family employees



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Form I-9

- Form I-9 is used to document employment eligibility
 - No exception for family members
 - Completed within three days of hiring.
 - Section one completed DAY 1
 - Retain copy in your permanent files (Do not submit to IRS or Department of Labor)
 - Downloadable from:
 - <https://www.uscis.gov/i-9>

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Form I-9

- New Revised I-9 – Released 8/1/2023
 - Expires 5/31/2027
- Employers do not need to re-do forms already completed.
- Guide to I-9 Form Completion
- Guide walks through the form I-9 line-by-line.....plus provides visual samples of supporting documents.
 - <http://www.uscis.gov/files/form/m-274.pdf>

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Employment Eligibility Verification
 Department of Homeland Security
 U.S. Citizenship and Immigration Services

USCIS
Form I-9
 OS/IS No. 1615-0047
 Expires 05/31/2027

START HERE: Employers must ensure the form instructions are available to employees when completing this form. Employers are liable for failing to comply with the requirements for completing this form. See below and the [instructions](#).

ANTI-DISCRIMINATION NOTICE: All employees can choose which acceptable documentation to present for Form I-9. Employers cannot ask employees for documentation to verify information in **Section 1**, or specify which acceptable documentation employees must present for **Section 2** or **Supplement B, Reverification and Rehire**. Treating employees differently based on their citizenship, immigration status, or national origin may be illegal.

Section 1. Employee Information and Attestation: Employees must complete and sign Section 1 of Form I-9 no later than the first day of employment, but not before accepting a job offer.

Last Name (Family Name)		First Name (Given Name)		Middle Initial (if any)	Other Last Names Used (if any)	
Address (Street Number and Name)			Apt. Number (if any)	City or Town		State ZIP Code
Date of Birth (mm/dd/yyyy)	U.S. Social Security Number		Employee's Email Address		Employee's Telephone Number	

I am aware that federal law provides for imprisonment and/or fines for false statements, or the use of false documents, in connection with the completion of this form. I attest, under penalty of perjury, that this information, including my selection of the box attesting to my citizenship or immigration status, is true and correct.

Check one of the following boxes to attest to your citizenship or immigration status (See page 2 and 3 of the instructions.):

☐ 1. A citizen of the United States

☐ 2. A noncitizen national of the United States (See instructions.)

☐ 3. A lawful permanent resident (Enter USCIS or A-Number.)

☐ 4. A noncitizen (other than item Numbers 2. and 3. above) authorized to work until (exp. date, if any)

If you check item Number 4., enter one of these:

USCIS A-Number OR Form I-94 Admission Number OR Foreign Passport Number and Country of Issuance

Signature of Employee _____ Today's Date (mm/dd/yyyy) _____

If a preparer and/or translator assisted you in completing Section 1, that person MUST complete the [Preparer and/or Translator Certification](#) on Page 3.

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Section 2. Employer Review and Verification: Employers or their authorized representative must complete and sign Section 2 within three business days after the employee's first day of employment, and must physically examine, or examine consistent with an alternative procedure authorized by the Secretary of DHS, documentation from List A OR a combination of documentation from List B and List C. Enter any additional documentation in the Additional Information box: see instructions.

Document Title 1	List A	OR	List B	AND	List C
Issuing Authority					
Document Number (if any)					
Expiration Date (if any)					
Document Title 2 (if any)	Additional Information				
Issuing Authority					
Document Number (if any)					
Expiration Date (if any)					
Document Title 3 (if any)					
Issuing Authority					
Document Number (if any)					
Expiration Date (if any)					

☐ Check here if you used an alternative procedure authorized by DHS to examine documents.

Certification: I attest, under penalty of perjury, that (1) I have examined the documentation presented by the above-named employee, (2) the above-listed documentation appears to be genuine and to relate to the employee named, and (3) to the best of my knowledge, the employee is authorized to work in the United States.

Last Name, First Name and Title of Employer or Authorized Representative _____ Signature of Employer or Authorized Representative _____ Today's Date (mm/dd/yyyy) _____

Employer's Business or Organization Name _____ Employer's Business or Organization Address, City or Town, State, ZIP Code _____

For reverification or rehire, complete [Supplement B, Reverification and Rehire](#) on Page 4.

Form I-9 Edition: 08/01/23

Page 1 of 4

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LISTS OF ACCEPTABLE DOCUMENTS

All documents containing an expiration date must be unexpired.
 * Documents extended by the issuing authority are considered unexpired.
 Employees may present one selection from List A or a combination of one selection from List B and one selection from List C.

Examples of many of these documents appear in the Handbook for Employers (M-274).

LIST A Documents that Establish Both Identity and Employment Authorization	OR	LIST B Documents that Establish Identity	AND	LIST C Documents that Establish Employment Authorization
1. U.S. Passport or U.S. Passport Card		1. Driver's license or ID card issued by a State or outlying possession of the United States provided it contains a photograph or information such as name, date of birth, gender, height, eye color, and address		1. A Social Security Account Number card, unless the card includes one of the following restrictions: (1) NOT VALID FOR EMPLOYMENT (2) VALID FOR WORK ONLY WITH INS AUTHORIZATION (3) VALID FOR WORK ONLY WITH DHS AUTHORIZATION
2. Permanent Resident Card or Alien Registration Receipt Card (Form I-551)		2. ID card issued by federal, state or local government agencies or entities, provided it contains a photograph or information such as name, date of birth, gender, height, eye color, and address		2. Certification of report of birth issued by the Department of State (Forms DS-1350, FS-545, FS-240)
3. Foreign passport that contains a temporary I-551 stamp or temporary I-551 printed notation on a machine-readable immigrant visa		3. School ID card with a photograph		3. Original or certified copy of birth certificate issued by a State, county, municipal authority, or territory of the United States bearing an official seal
4. Employment Authorization Document that contains a photograph (Form I-766)		4. Voter's registration card		4. Native American tribal document
5. For an individual temporarily authorized to work for a specific employer because of his or her status or parole: a. Foreign passport, and b. Form I-94 or Form I-94A that has the following: (1) The same name as the passport, and		5. U.S. Military card or draft record		5. U.S. Citizen ID Card (Form I-197)
		6. Military dependent's ID card		
		7. U.S. Coast Guard Merchant Mariner Card		
		8. Native American tribal document		

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Form W-4 (Federal and State)

- W-4 (Federal and State)
 - Communicates to employer how much federal/state income tax to withhold from paycheck.
 - State requirements vary. Check state regulations and consult with tax professional
 - Employer should retain signed copy.
 - Federal: <https://www.irs.gov/forms-pubs/about-form-w-4>

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Form W-4 Department of the Treasury Internal Revenue Service		Employee's Withholding Certificate Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Give Form W-4 to your employer. Your withholding is subject to review by the IRS.		OMB No. 1545-0074 2025
Step 1: Enter Personal Information	(a) First name and middle initial		Last name	(b) Social security number
	Address			
	City or town, state, and ZIP code			
	(c) <input type="checkbox"/> Single or Married filing separately <input type="checkbox"/> Married filing jointly or Qualifying surviving spouse <input type="checkbox"/> Head of household (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)			
TIP: Consider using the estimator at www.irs.gov/W4App to determine the most accurate withholding for the rest of the year if: you are completing this form after the beginning of the year; expect to work only part of the year; or have changes during the year in your marital status, number of jobs for you (and/or your spouse if married filing jointly), dependents, other income (not from jobs), deductions, or credits. Have your most recent pay stub(s) from this year available when using the estimator. At the beginning of next year, use the estimator again to recheck your withholding.				
Complete Steps 2-4 ONLY if they apply to you; otherwise, skip to Step 5. See page 2 for more information on each step, who can claim exemption from withholding, and when to use the estimator at www.irs.gov/W4App .				
Step 2: Multiple Jobs or Spouse Works	Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs. Do only one of the following. (a) Use the estimator at www.irs.gov/W4App for the most accurate withholding for this step (and Steps 3-4). If you or your spouse have self-employment income, use this option; or (b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below; or (c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is generally more accurate than (b) if pay at the lower paying job is more than half of the pay at the higher paying job. Otherwise, (b) is more accurate. <input type="checkbox"/>			
Complete Steps 3-4(b) on Form W-4 for only ONE of these jobs. Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3-4(b) on the Form W-4 for the highest paying job.)				

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New Hire Report

- Requirement (Federal Mandate begins in 2012)
- Feeds into a network to ensure that child and family support payments are being made by workers.
- Each individual state administers this program. Check with your state department of revenue or equivalent agency.

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Worker's Compensation Requirements

- Intended to provide wage replacement and compensation for employees who suffer work-related injuries or illnesses.
- Every state has a workers comp. system
- Provide compensation without regard to negligence or fault of either the employer or employee.
- Exceptions for Agriculture

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Workers Compensation

- Liability and Risk Management
 - While there is a cost associated with Workers compensation Insurance Coverage, the cost of dealing with a serious injury can also be devastating.
 - Visit with an insurance provider to examine costs and coverage
 - Visit with a farm consultant and your family attorney

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Questions



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