

Nanny Holiday or Year End Bonus

by Kathy Webb 4NannyTaxes.com on Mon, Nov 19, 2012

Q. Does my nanny expect a bonus? If so, how big should the bonus be?

A. Holiday or year end bonuses are OPTIONAL - and are reportedly paid by about half of our clients. So, where as your nanny might appreciate a bonus, unless it has been your practice to give one in the past she is not likely to EXPECT it.

Bonus amounts are typically one, sometimes two weeks pay. For newer nannies, most families fall back on the one day for every month of employment, up to a week. So the nanny who started in October might get 3 days pay as her bonus.

Many families have employment contracts that obligate a bonus at the employment anniversary date - a retention bonus. When these arrangements are in place, there is often either no holiday bonus or a very modest one.

Q. My husband and I have not had raises in two years, and we went ahead and gave our nanny a salary increase on her employment anniversary date. We would like to give a bonus, but it cannot be as generous as last year. Is this a problem?

A. Your nanny hears the news and knows that economic conditions are not fabulous too. Most employees, not simply nannies, have adjusted their expectations downward, and most are happy to get any bonus. I recommend that you acknowledge this to your nanny. Something to the effect "Times are rough, and I wish this bonus could be as generous as last year's." Make sure you use the words to express your gratitude for the services your nanny provides; most professional nannies would agree that a financial bonus is nice, but the words sincerely offered are always remembered.

Q. Are nanny holiday bonuses and gifts taxable?

A. Yes. In the eyes of the IRS, there is no such thing as a GIFT between and employer and an employee. Anything of value given by an employer to an employee is considered compensation, subject to wage reporting and employment and income taxes

The only way to skirt the issues of reporting the gift or bonus on the nanny's W-2 is to give her something with a 'de minimis' value - something so small that it is administratively impractical to perform a valuation and include it in compensation. This absolutely rules out CASH and dollar-value gift cards, but might allow other small expressions of gratitude such as a framed photo of the nanny with her charges.

The IRS does not define 'de minimis' by any specific value. A business gift is considered 'de minimis' if the value is less than \$25. Many employers use the same measurement - hence the holiday ham or turkey. Gift cards with a dollar value or 'cash equivalent', however, even under \$25, would be considered compensation.

Any cash you give to an employee at any time - whether it's a salary, bonus, or holiday gift - must be added to the employee's W-2 income. As a cash equivalent, a \$50 gift certificate or gift card is \$50 of taxable income.

