

By Karen Edwards

All in the Family

Is there a payoff to hiring your family members?

WHEN IT COMES TO OPERATING A DAY SPA, HIRING family can be tricky business. In fact, the very idea of having Mom, Dad, sister Jane and little Jimmy working with you may sound like a recipe for disaster. However, it appears that many spa owners aren't aware of the potential financial breaks of working with family. "As owners, we need to know everything about our businesses, even if we're not handling something directly," adds Diane Fisher owner of Eclips Salon and Day Spas in McLean and Ashburn, Virginia, which also employs Fisher's husband, son and daughter-in-law. "If there are financial benefits to running a family business, I want to put them to good use."

Consider these advantages to working with your loved ones:

- **If you're just starting your spa business, family can be an accessible, dependable—and inexpensive—labor pool.** "[The beginning] is the time when everyone in the family rolls up their sleeves and pitches in," says family business consultant Florence Kaslow, Ph.D., of Palm Beach Gardens,

Florida. Amy Augustyn, owner of Denver's Aspire Day Spa (www.aspiredayspa.com) says her parents helped her open her spa and even provided business on slow days. "They were so helpful in every aspect," she recalls. And because both parents are entrepreneurs in their own right, Augustyn says she had access to a wealth of experience and advice she couldn't have afforded had the two been charging as consultants.

- **You can save on health insurance by covering your family as employees rather than as family members.** You should qualify for better rates and you can write off the total cost of coverage as a business expense. Remember though, you'll need to offer the same plan to nonfamily members, says Rick Rumpler, a partner in the Cincinnati accounting firm Mellott & Mellott.
- **You can make better use of Social Security.** A surviving spouse is entitled to half of his or her partner's benefits or all of his or her own. Generally, says Rumpler, a spouse is better off taking half of her partner's benefits, primarily because the working partner is usually male and earns more. However, by hiring a nonworking spouse, you enable that individual to build up Social Security earnings so that if something should happen to the working spouse, or if a divorce occurs, he or she won't have to start from scratch.

Relative Tax Breaks

As mentioned, there are also certain tax advantages to employing your family. Not all family relationships mean benefits, but for those day spa owners employing a spouse, children or parents, the rules become instrumental.

First, according to Rumpler, if your business is set up as a sole proprietorship, your spouse's income is subject to withholding as well as Social Security



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and Medicare taxes—just like everyone else’s—but you shouldn’t have to pay federal unemployment tax on your partner. It’s assumed that you’ll support your spouse as long as he or she is unemployed. The same scenario holds true for employed parents—if your parents work in your day spa, you shouldn’t have to pay unemployment tax on them either.

“We don’t pay unemployment tax on [my wife] Marti,” says Bruce Schoenberg of Oasis Day Spa (www.oasisdayspanyc.com) in New York City. However, Marti isn’t officially an employee—she’s a partner. “Instead, we take out disability and life insurance policies on her,” he explains.

Before you speed-dial your accountant to ask about this benefit, remember: Your spa *must* be structured as a sole proprietorship. You still have to pay the unemployment tax if your spa is set up as a corporation, or if your spouse or parents are employed by you but you’re in partnership with a nonfamily member.

Another way the Schoenbergs use their payroll



to reduce their taxes is to pay themselves with one check. “If we each received a paycheck, we’d be paying twice on federal, state and local withholding taxes, and Marti would be calculated into our workers’ compensation premiums and other insurance that’s paid for by the business,” says Schoenberg. “In essence, we’d be penalized double as a married couple since any income derived by us goes into the same pot. Why pay Uncle Sam twice?”

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When Children Chip In

Of course, all of this advice is terrific—if you’re married, or your business employs Mom and/or Dad. But if neither is the case, can you still save on taxes? The answer is yes, if you have employable children. If you hire your child (or children) under age 18 you don’t have to pay his or her withholding tax, Social Security or federal unemployment tax until that child (or children) turns 18 (or 21, in the case of unemployment tax). This does not apply if you hire the children of a family member, however. “It makes financial sense to hire your children,” says John Roslansky, a human resource consultant and labor and employment lawyer in Wellesley, Massachusetts. That’s because you’re diverting part of your revenue to a lower tax bracket—that of your children. If the child uses that money to fund an IRA, the money won’t be taxed until later, if at all.

“By hiring your children, you can reduce your taxable business income and simultaneously save money for your child’s college education,” says Roslansky. Your child could, of course, defer the money to a savings account, but Rumpler says it’s much better off in an IRA. A Roth IRA is best, he adds, because taxes are already paid on money placed into a Roth so there’ll be no tax due if it’s withdrawn early, and any withdrawal for IRS-allowable expenses—like college—will be penalty-free.

Of course, if you hire your children, make sure that you’re hiring them for a real job, not just adding them to the payroll as a “ghost worker.” “You’ll need to be able to document their duties in case you’re audited,” says Rumpler. You’ll also need to be able to show the IRS

that the money is under your children’s control, not yours.

Also, consider how much you’re paying. “If you’re going to pay your eight-year-old something

like \$3,500 [per year] then yes, you’re likely to be audited,” says Roslansky. “Just make sure that the pay—and the duties—are reasonable for the age of your child.”

Ultimately, there's no limit on how much you can pay your child, but it has to be commensurate with the job.

Ultimately, there's no limit on how much you can pay your child, but the compensation has to be commensurate with the actual job. Once the child earns more than \$5,000, that

money becomes taxable, although at a lower tax rate than the one you're presumably paying.

Sisters Cindy Cox and Nancy Szaronos, owner and manager,

respectively, of The Hair Artists Salon in Columbus, Ohio, say they've discovered additional possibilities for employing their children. Both employers hired their daughters to work in the salon at some point—for school credit, not for pay. This was ideal because Cox's daughter needed an internship for a marketing class. "She had an irregular schedule, and could work only a limited number of hours," says Cox. "I don't know anyone else who would have let her work under her specific circumstances."

Familial Success

We all presumably want what's best for our loved ones, and if you run a family-operated spa, that means ensuring the health and future of your business. Roslansky offers these final tips:

- **Use consultants from time to time.** [Consultants] provide a fresh perspective," he says. If you don't hire experts, you could be missing out on the tax advantages allowed for family-run businesses.
- **Have a succession plan.** Plan for what would happen if you were no longer there to run the business. Maybe the business wouldn't stay in the family, but you need some idea as to how it would be disposed of. If your spouse, parent or child is interested in taking over the business, you can make plans for a soft buy-in that takes place over several years.
- **Place all company financial arrangements in a legal document.** Should your marriage dissolve, or family arguments ensue, it's best to have all stipulations and sources in one place—and administered by a third party. ●

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