

## The Benefits of Hiring Family

### *Highlights*

- The dental practice must be structured as a sole proprietorship or partnership
- The hypothetical practice owner below saves \$1,921 per year in taxes
- A practice owner does not pay FUTA, social security, or Medicare taxes on wages paid to his/her minor children

Hiring family members can reduce your tax liability by reducing or eliminating Federal Unemployment Tax Act (FUTA), Social Security, and Medicare taxes. If a dentist practice owner hires a minor child, wages paid to the child are not subject to FUTA, Social Security, or Medicare taxes if the practice is legally structured as a sole proprietorship or a partnership in which each partner is a parent of the child. If the dentist hires a spouse, the spouse's wages will still be subject to social security and Medicare taxes, but not the FUTA tax.

The hypothetical example<sup>1</sup> below illustrates some of the tax liability of a dental practice where the husband/dentist hires his wife and children to work in his practice. The amounts that are struck through represent the annual amounts that the dentist would otherwise be required to pay if he hired a non-family member to fill that role. The annual savings to the dentist in this example amount to \$1,921. Additionally, the dentist would also be reducing his own taxable income by paying some of the practice's revenue to his children as wages, thereby further reducing his tax liability.

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<sup>1</sup> This hypothetical practice is legally structured as an LLC and treated as a "disregarded entity" for tax purposes. It is located in South Carolina and the tax year is 2020.

| Individual | Role               | Family Member? | Annual Wages | FUTA <sup>2</sup>   | Social Security <sup>3</sup> | Medicare <sup>4</sup> |
|------------|--------------------|----------------|--------------|---------------------|------------------------------|-----------------------|
| Husband    | Dentist            | Yes            | \$280,000    | \$254.74            | \$17,360                     | \$4,060               |
| Wife       | Office Manager     | Yes            | \$100,000    | <del>\$254.74</del> | \$6,200                      | \$1,450               |
| Employee 1 | Hygienist          | No             | \$60,000     | \$254.74            | \$3,720                      | \$870                 |
| Employee 2 | Dental Assistant   | No             | \$35,000     | \$254.74            | \$2,170                      | \$508                 |
| Son        | Clerical Assistant | Yes            | \$8,000      | <del>\$254.74</del> | \$434                        | \$102                 |
| Daughter   | Clerical Assistant | Yes            | \$7,000      | <del>\$254.74</del> | \$496                        | \$116                 |

Of course, each dental practice and tax situation will be unique, so practice owners should consult a competent advisor prior to hiring a family member or making other decisions that could impact tax liability.

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<sup>2</sup> The hypothetical FUTA tax listed here includes the federal tax (generally, 0.6% of the first \$7,000 in wages after receiving a 5.4% credit for paying the state unemployment taxes in full on time) and South Carolina state tax (assuming the maximum cost per employee, \$215.74, where the hypothetical dental practice is in rate class 16. See [SC Dept. of Employment and Workforce's tax rate table](#) for more details.

<sup>3</sup> For 2020, the tax rate for social security is 6.2% for the employer and 6.2% for the employee, or 12.4% total. The amounts displayed in this column reflect only the employer's tax liability since this example demonstrates tax efficiency strategies for an employer.

<sup>4</sup> For 2020, the tax rate for Medicare is 1.45% for the employer and 1.45% for the employee, or 2.9% total. The amounts displayed in this column reflect only the employer's tax liability since this example demonstrates tax efficiency strategies for an employer.