

Year End Tax Tips

How to Handle Requests for Your Federal Tax ID

A Complimentary Resource from
Breedlove & Associates

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Why do clients request a Federal Employment Identification Number (FEIN) from placement agencies?

Most likely, a client is asking for an agency's federal employment identification number (FEIN) because a federal tax ID is required on the forms used to take advantage of childcare tax breaks. They often misunderstand the purpose of this information and erroneously ask for the agency's federal tax ID. In most cases, families should use their own FEIN in order to correctly take advantage of childcare tax breaks.

Why is an FEIN required when taking a tax break?

Families are allowed to take the childcare tax credit on their annual federal tax return, or to utilize a dependent care account in which up to \$5,000 of their salary is tax-free to help offset some of the costs of childcare. When taking these tax breaks, the **employer** FEIN must be provided. This tax ID informs the IRS who the employee works for. In both permanent and temporary placements, the caregiver does not work for the agency that placed her – she works for the family that employs her.

Families sometimes apply the agency placement fee toward the childcare tax credit. To report these fees correctly, the FEIN of the agency that provided the placement services is required. It is not clear as to whether or not these fees qualify as childcare expenses. We advise families to take the most risk-free route and leave agency placement fees off the list of childcare expenses.

Should placement agencies provide clients with their FEIN?

Our advice is NO. If an agency's FEIN is used to erroneously indicate to the IRS that the agency is the employer, this provides false information and creates liability for the agency. If a family has paid their employee legally, they will have their own FEIN and should be advised to use this tax id to correctly identify the employer and to tie the wages paid to the family. Please note that families can only capitalize on tax breaks if they paid their household employee legally.

If a family is seeking an agency's FEIN to apply the placement fee toward their childcare tax break, we advise that the agency release this tax id on a case-by-case basis. Although placement fees may not be recognized by the IRS as legitimate childcare expenses for the purpose of calculating tax breaks, the agency – in this case – has no liability in releasing its FEIN. Typically, however, household wages exceed the amount that can be applied toward a tax break, and therefore, applying the placement fee is unnecessary. If a family has not paid their household employee legally, they should not be attempting to take a tax break on the placement fees.

What costs can be used toward childcare tax breaks?

The nanny's full gross salary (not the net pay) can be used for tax breaks. In addition, employer taxes (over and above the gross salary) apply toward childcare tax breaks. Many of our clients have asked us if placement fees can also be applied. After researching this question, it is our interpretation of the law that the IRS does not view the placement fee as a childcare expense, and therefore, it cannot be applied toward the childcare tax break.

**If you have any questions, please don't hesitate to call us
at 1-888-BREEDLOVE (273-3356). We're here to help.**



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