PARENTS

Raising a Child: Frequently Asked Questions

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How much will it cost me to raise a child?

We can't tell you exactly what your child will cost, but we can provide you with estimates. Knowing what to expect will allow you to plan for the future. Here is a breakdown of the items you'll need, and an estimate of their costs.

> These estimates are for a first child. Bear in mind that second or third children will cost less than the first since you will already have purchased many of the items you need. Typically parents with 3 or more children spend 22 percent less per child than those with just two children.

Government estimates say that a middle-income family in 2015, defined as having an annual income between $59,350 and $107,400, will spend a total of $233,610 to raise a child to age 17. This figure represents a 3.0 percent increase from the four-year period 2010-2014 to the four-year period 2011 to 2015 and does not include expenses incurred beyond the age of 18. If you include the cost of college, whether public or private, that cost goes up significantly. And, families that earn more generally can expect to spend more on their children.

According to the USDA report, *Expenditures on Children by Families, 2015*, annual child-rearing expenses per child for a middle-income, two-parent family ranged from $12,350 to $13,900. The age of the child accounted for the annual variations. For example, child care expenses are greater in the first 6 years of a child's life, but transportation costs are likely to be higher when a child hits her teen years.

About 30 percent of the amount spent in the government estimates goes to cover housing expenses relating to the new member of your household. Child care and education expenses account for the second highest percent. Other costs taken into account include transportation, food, clothing, health care, and miscellaneous expenses.

Married-couple families in the urban Northeast had the highest child-rearing expenses, followed by similar families in the urban West and urban South. Married-couple families in the urban Midwest and rural areas had the lowest child-rearing expenses.

What costs can I expect during the first year?

Here are the costs you can expect up to birth and during the first year.

- **Hospital Costs.** According to 2015 report by the *International Federation of Health Plans*, an uneventful hospital delivery in the United States costs, on average $10,808 and $16,106 for a cesarean section birth. The actual costs you pay, of course, vary depending on your health care coverage.
- **Layette.** Before you bring the baby home, you'll buy a crib, a changing table, and a swing or bouncy seat. The moderately priced versions of these three things will cost you about $1,200. You'll also need at least one stroller that you can expect to pay about $400 for. A full-size infant car seat will cost you about $150-$200, and a full-size high chair will cost $150. Finally, you will spend several hundred dollars on washcloths, sheets, blankets, towels, undershirts, onesies, and other baby clothes.

Also, think about whether you plan to use a diaper service, cloth diapers, or use disposable ones.

- **Feeding.** The American Academy of Pediatrics recommends exclusively breastfeeding your baby for at least 6 months. Many women, of course, choose to breastfeed longer than that. Nursing mothers will have to invest in several good nursing bras and nursing pads (about $50) as well as a nursing pillow (about $25). If you plant to return to work after 3 months, consider investing in a hospital grade breast pump, which will run you about $400.
  In comparison, a year's worth of ready-mix powder formula costs about $1,350. If you buy the ready-to-serve type of formula, the cost is, even more, running well over $2,000. You'll also need a year's supply of bottles, at about $90, and you'll have to add another $40 to replace the nipples at least twice in a year.
  When your baby is ready for solid foods, you will also need to account for the cost of rice cereal and baby food.
- **Diapers and Gear.** Diapers are another expense you need to consider. Cloth diapers are the least expensive option. Disposable diaper costs for the first year run about $850, and a diaper genie costs about $40.
- **Child Care.** Child care in a day care center costs much less than a live-in nanny. A mid-priced day care center charges on average $975 per month for your infant's care, or close to $12,000 per year.
- **Health Care.** Your infant will visit the doctor about six times during his or her first year, including well-baby check-ups as well as the inevitable colds and fevers of infancy. How much you will spend for doctor visits during the first year depends on your health insurance.
- **Toys and Clothes.** You'll spend about $500 on toys and clothing during the first year.
- **Total for the First Year.** Your total expenses for the first year run about $15,000-$18,000. The biggest variable is the cost of health care.

How much will I spend on my child during ages one through six?

During these years, you'll spend about $1,000 on toys and clothes, and about $2,200 a year on food. If your child attends daycare or pre-school, add in the cost of these services. Daycare will cost you an average of $12,000 per year, while pre-school costs vary widely. Again, health care costs depend on your health coverage.

How much will I spend on my child during ages six through twelve?

This is the time when the overall expenses of child-rearing drop and families can save more. During these years, your child care expenses will drop drastically. Health care costs generally stabilize unless of course, your child begins orthodontia during this stage. Then, you'll have to pay more.

You are likely to spend more than in the previous stage on clothing, toys, and entertainment, but your kids won't be demanding the high-ticket clothing and other items of adolescence. The bill for food will be just slightly more than what it was in the previous stage.

On the negative side, now that your kids are in school, you'll want to pay for all those extras that middle-class kids have: dancing and music lessons, sports participation, and so on. And, if you decide to send your kids to private school or to summer camp, these expenses will have to be added in.

How much will I spend on my child during ages thirteen through eighteen?

During this stage, you can expect your child's food, clothing, and entertainment bill to greatly exceed what it was during the previous stage. For instance, food costs will increase as a result of growth spurts in your adolescent and clothing costs are likely to rise as well as your teen takes more of an interest in his or her appearance.

Once your teen starts driving, your auto insurance will go up. The extra cost could be anywhere from $300 to $1,000, depending on your state of residence and whether your child is a boy or girl. If you intend to buy your child a car, add this expense in as well.

How can I teach my kids good financial skills?

Once they reach school age, children should start learning rudimentary financial skills.

You might start to teach your kids in the following areas:

The Allowance. Giving your child an allowance is a good start. Whether you pay your child a quarter or one dollar to perform weekly household chores, you are instilling a work ethic and a giving them an opportunity to learn how to save and spend their money wisely. You can make suggestions to them about what they should do with it, but allow them the final say on what happens to the money. Let them see the consequences of both wise and foolish behavior with regard to money. A child who spends all of his money on the first day of the week is more likely to learn to budget if he is not provided with extras to tide him over.

Savings and Investment. Beyond the basics of budgeting and saving, you'll want to get your child involved in saving and investing. The easiest way to do this is to have the child open his or her own savings account. If you want your child to become familiar with investing, there are a number of child-friendly mutual funds and individual stocks available.

Taxes. Many teens today have part-time jobs. Although they might not make enough to need to file a tax return, encouraging them to fill out a practice tax form is a good way to have them participate in the process--and get them used to the idea of submitting yearly tax forms.

Saving for College: Frequently Asked Questions

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When should I start saving for my child's education?

This depends on how much you think your children's education will cost. The best way is to start saving before they are born. The sooner you begin the less money you will have to put away each year.

> Suppose you have one child, age six months, and you estimate that you'll need $120,000 to finance their college education 18 years from now. If you start putting away money immediately, you'll need to save $3,500 per year for 18 years (assuming an after-tax return of 7 percent). On the other hand, if you put off saving until the child is six years old, you'll have to save almost double that amount every year for twelve years.

Another advantage of starting early is that you'll have more flexibility when it comes to the type of investment you'll use. You'll be able to put at least part of your money in equities, which, although riskier in the short-run, are better able to outpace inflation than other investments in the long-run.

How much will my child's college education cost?

How much will your child's education cost? It depends on whether your child attends a private or state school. According to the College Board, for the 2020-21 school year the total expenses - tuition, fees, board, personal expenses, and books and supplies - for the average four-year private college are about $54,880 per year and about $26,820 per year for the average four-year in-state public college. However, these amounts are averages: the tuition, fees, and board for some private colleges can exceed $75,000 per year whereas the costs for a state school can often be kept under $10,000 per year. It should also be noted that in 2020-21 the average amount of grant aid for a full-time undergraduate student was about $7,330 and $21,660 for four-year public and private schools, respectively. More than 70 percent of full-time students receive grant aid to help pay for college.

How should I invest my child's college fund?

As with any investment, you should choose those that will provide you with a good return and that meet your level of risk tolerance. The ones you choose should depend on when you start your savings plan-the mix of investments if you start when your child is a toddler should be different, from those used if you start when your child is age 12.

The following are often recommended as investments for education funds:

- **Series EE bonds:** These are extremely safe investments. They should be held in the parents' names. If the adjusted gross income of you and your spouse at the time of redemption is at or under the amount set by the tax law, the interest on bonds bought after January 1, 1990, is tax-free as long as it is used for tuition or other qualified education costs. If your adjusted gross income is above the threshold amount, the tax break is phased out.
  You can exclude from your gross income interest on qualified U.S. savings bonds if you have qualified higher education expenses during the year in which you redeem

the bonds. For tax year 2022, the exclusion begins phasing out at $85,800 ($83,200 in 2021) modified adjusted gross income ($76,000 indexed for inflation) and is eliminated for adjusted gross incomes of more than $100,800 ($98,200 in 2021). For married taxpayers filing jointly, the tax exclusion begins phasing out at $128,650 ($124,800 in 2021) and is eliminated for adjusted gross incomes of more than $158,650 ($154,800 in 2021). The exclusion is unavailable to married filing separately.

- **U.S. Government bonds:** These are also investments that offer a relatively higher return than CDs or Series EE bonds. If you use zero-coupon bonds, you can time the receipt of the proceeds to fall in the year when you need the money. A drawback of such bonds is that a sale before their maturity date could result in a loss on the investment. Further, the accrued interest is taxable even though you don't receive it until maturity.
- **Certificates of deposit:** These are safe, but usually provide a lower return than the rate of inflation. The interest is taxable. These should generally only be used by the most risk-averse investors and for relatively short investment horizons.
- **Municipal bonds:** Assuming the bonds are highly rated, the tax-free interest on them can provide an acceptable return if you're in the higher income tax brackets. Zero-coupon municipals can be timed to fall due when you need the funds and are useful if you begin saving later in the child's life.
- Be sure to convert the tax-free return quoted by sellers of such bonds into an equivalent taxable return. Otherwise, the quoted return may be misleading. The formula for converting tax-free returns into taxable returns is as follows:
  Divide the tax-free return by 1.00 minus your top tax rate to determine the taxable return equivalent. For example, if the return on municipal bonds is 1 percent and you are in the 32 percent tax bracket, the equivalent taxable return is 2.6 percent (1 percent divided by 68 percent).**Stocks:** An appropriate mutual fund or portfolio containing stocks can provide you with a higher yield than bonds at an acceptable risk level. Stock mutual funds can provide superior returns over the long term. Income and balanced funds can meet the investment needs of those who begin saving when the child is older.

What is the American Opportunity Tax Credit?

The American Opportunity Tax Credit (AOTC) was made permanent by the Protecting Americans from Tax Hikes Act of 2015 (PATH). The maximum credit, available only for the first four years of post-secondary education, is $2,500. You can claim the credit for each eligible student you have for which the credit requirements are met.

Income limits. To claim the American Opportunity Tax Credit, your modified adjusted gross income (MAGI) must not exceed $90,000 ($180,000 for joint filers). To claim the Lifetime Learning Credit, MAGI must not exceed $69,000 ($138,000 for joint filers). "Modified AGI" generally means your adjusted gross income. The "modifications" only come into play if you have income earned abroad.

Amount of credit. For most taxpayers, 40 percent of the AOTC is a refundable credit, which means that you can receive up to $1,000 even if you owe no taxes.

Which costs are eligible? Qualifying tuition and related expenses refer to tuition and fees, and course materials required for enrollment or attendance at an eligible education institution. They now include books, supplies, and equipment needed for a course of study whether or not the materials must be purchased from the educational institution as a condition of enrollment or attendance.

"Related" expenses do not include room and board, student activities, athletics (other than courses that are part of a degree program), insurance, equipment, transportation, or any personal, living, or family expenses. Student-activity fees are included in qualified education expenses only if the fees must be paid to the institution as a condition of enrollment or attendance. For expenses paid with borrowed funds, count the expenses when they are paid, not when borrowings are repaid.

> The tax law says that you can't claim both a credit and a deduction for the same higher education costs. It also says that if you pay education costs with a tax-free scholarship, Pell grant, or employer-provided educational assistance, you cannot claim a credit for those amounts.

What is the "kiddie tax?"

In the past, parents would invest in the child's name in order to shift income to the lower-bracket child. However, the addition of the "kiddie tax" mostly put an end to that strategy.

In 2022, the amount that can be used to reduce the net unearned income reported on the child's return that is subject to the "kiddie tax" is $1,150 ($1,100 in 2021). The same $1,150 amount is used to determine whether a parent may elect to include a child's gross income in the parent's gross income and to calculate the "kiddie tax." For example, one of the requirements for the parental election is that a child's gross income for 2022 must be more than $1,150 but less than $11,500.

For 2022, the net unearned income for a child under the age of 19 (or a full-time student under the age of 24) that is not subject to "kiddie tax" is $2,300 ($2,200 in 2021).

> These rules apply to unearned income. If a child has earned income, this amount is always taxed at the child's rate.

What is a Coverdell (Section 530) Education Savings Account and who is eligible for one?

In 2022, you can contribute up to $2,000 each year to a Coverdell education savings account (Section 530 program) for a child under 18. These contributions are not deductible, but they grow tax-free until withdrawn. Contributions for any year can be made through the [unextended] due date for the return for that year. The maximum contribution amount for each child is phased out for modified AGI between $190,000 and $220,000 (joint filers) and $95,000 and $110,000 (single filers). These amounts are not indexed to inflation.

> For the $2,000 contribution limit, there is no adjustment for inflation and therefore, the limit is expected to remain at $2,000.

Only cash can be contributed to a Section 530 account and you cannot contribute to the account after the child reaches their 18th birthday.

Anyone can establish and contribute to a Section 530 account, including the child, and you may establish 530s for as many children as you wish. The child need not be a dependent. In fact, he or she need not be related to you, but the amount contributed during the year to each account cannot exceed $2,000. The maximum contribution amount for each child is phased out for modified AGI between $190,000 and $220,000 (joint filers) and $95,000 and $110,000 (single filers). These amounts are not indexed to inflation.

If you have insufficient savings for your child's education when he is close to entering college, what should you do?

Many families find themselves in the same boat. Fortunately, there are ways to generate additional funds both now and when your child is about to enter school:

- You can start saving as much as possible during the remaining years. However, unless your income level is high enough to support an extremely stringent savings plan, you will probably fall short of the amount you need.
- You can take on a part-time job. However, this will raise your income for purposes of determining whether you are eligible for certain types of student aid. In addition, your child may be able to take on part-time or summer jobs.
- You can tap your assets by taking out a home equity loan or a personal loan, selling assets or borrowing from a 401(k) plan.
- You (or your child) can apply for various types of student aid and education loans.

What types of grants are available for college?

Grants. The best type of financial aid because they do not have to be paid back -- are amounts awarded by governments, schools, and other organizations. Some grants are need-based and others are not.

- The Federal Pell Grant Program offers federal aid based on need.
- Don't assume that middle class families are ineligible for needs-based aid or loans. The assessment of whether a family qualifies as "in need" depends on the cost of the college and the size of the family.
  State education departments may make grants available. Inquiries should be made of the state agency.
- Employers may provide subsidies.
- Private organizations may provide scholarships. Inquiries should be made at schools.
- Most schools provide aid and scholarships, both needs-based and non-needs-based.
- Military scholarships are available to those who enlist in the Reserves, National Guard, or Reserve Officers Training Corps. Inquiries should be made at the branch of service.

Try negotiating with your preferred college for additional financial aid, especially if it offers less than a comparable college.

What types of grants are available for college?

There are various student loan programs available. Some are need-based, and others are not. Here is a summary of loans:

- Stafford loans (formerly guaranteed student loans) are federally guaranteed and subsidized low-interest loans made by local lenders and the federal government. They are needs-based for subsidized loans; however an unsubsidized version is also available.
- Perkins loans are provided by the federal government and administered by schools. They are needs-based. Inquiries should be made at school aid offices.
- Parent loans for undergraduate students (PLUS) and supplemental loans for students are federally guaranteed loans by local lenders to parents, not students. Inquiries should be made at college aid offices.
- Schools themselves may provide student loans. Inquiries should be made at the school.

How can I increase the amount of financial aid my child is entitled to?

Here are some strategies that may increase the amount of aid for which your family is eligible:

- **Try to avoid putting assets in your child's name.** As a general rule, education funds should be kept in the parents' names, since investments in a child's name can impact negatively on aid eligibility. For example, the rules for determining financial aid decrease the amount of aid for which a child is eligible by 35 percent of assets the child owns and by 50 percent of the child's income.
- If your child owns $1,000 worth of stock, the amount of aid for which he or she is eligible for is reduced by $350. On the other hand, the amount of aid is reduced by (effectively) only 5.6 percent of your assets and from 22 to 47 percent of your income.

  Reduce your income. Income for financial aid purposes is generally determined based upon your previous year's income tax situation. Therefore, in the years immediately prior to and during college, try to reduce your taxable income. Some ways to do this include:
  1. Defer capital gains.
  2. Sell losing investments.
  3. Reduce the income from your business. If you are the owner of your own business, you may be able to reduce your taxable income by taking a lower salary, deferring bonuses, etc.
  4. Avoid distributions from retirement plans or IRAs in these years.
  5. Pay your federal and state taxes during the year in the form of estimated payments rather than waiting until April 15 of the following year.
  6. Since a portion of discretionary assets is included in the family's expected contribution from income, reduce discretionary assets by paying off credit cards and other consumer loans.
  7. Take advantage of vehicles which defer income, such as 401(k) plans, other retirement plans or annuities.
- **Detail any financial hardships.** If you have any financial hardships, let the deciding authorities know (via the statement of financial need) exactly what they are if they are not clear from the application. The financial aid officer may be able to assist you in explaining hardships.
- **Have your child become independent.** In this case, your income is not considered in determining how much aid your child will be eligible for. Students are considered independent if they:
  1. Are at least 24 years old by the end of the year for which they are applying for aid
  2. Are veterans

3. Have dependents other than their spouse
4. Are wards of the court or both parents are deceased
5. Are graduate or professional students
6. Are married and are not claimed as dependents on their parents' returns

How can I save taxes on college savings?

If you decide to invest in your child's name, here are some tax strategies to consider:

- You can shift just enough assets to create $2,300 in 2022 ($2,200 in 2021) taxable income to an under age 19, child.
- You can buy U.S. Savings Bonds (in the child's name) scheduled to mature after your child reaches age 18.
- You can invest in equities that pay small dividends but have a lot of potential for appreciation. The dividend income earned when your child is under the age of 19 will be minimal with tax relief, and the growth in the stocks will occur over the long term.
- If you own a family business, you can employ your child in the business. Earned income is not subject to the "kiddie tax," and is deductible by the business if the child is performing a legitimate function. Additionally, if your business is a sole proprietorship and your child is younger than 19 years old, then he or she will not pay social security taxes on the income.

"Nanny Tax" Rules: Frequently Asked Questions

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What kinds of household workers are covered by nanny tax rules?

Household workers include anyone who does work in or around your home such as babysitters, nannies, health aides, private nurses, maids, caretakers, yard workers, and similar domestic workers. In addition, the worker must be your employee, which means you can control not only what work is done, but how it is done.

It does not matter whether the work is full-time or part-time, or that you hired the worker through an agency. On the other hand, if only the worker can control how the work is done, the worker is not your employee, but is self-employed.

What must I do if I think my worker or worker-to-be isn't a U.S. citizen?

It is unlawful for you to knowingly hire or continue to employ an alien who cannot legally work in the United States.

When you hire a household employee to work for you on a regular basis, he or she must complete the employee part of the Immigration and Naturalization Service (INS) Form I-9, *Employment Eligibility Verification*. You must verify that the employee is either a U.S. citizen or an alien who can legally work here and then complete the employer part of the form. Keep the completed form for your records.

What are my tax duties if I have a household employee?

You may need to withhold and pay Social Security and Medicare taxes, or you may need to pay federal unemployment tax, or you may need to do both.

- If you pay cash wages of $2,400 or more in 2022 to any one household employee, withhold and pay Social Security and Medicare taxes.
- If you pay total cash wages of $1,000 or more in any calendar quarter of 2021 or 2022 to household employees, you must pay unemployment tax.

If I hire teenagers as babysitters or for yard work, must I withhold and pay tax for them?

When figuring whether you paid an employee $2,400 or more in 2022 to babysitters or others, you generally don't count wages paid to an employee who is under age 18 at any time during the year.

If the employee is a student, providing household services is not considered his or her principal occupation. However, you should count these wages if providing household services is the employee's principal occupation.

Are there ways to pay my household employee that minimize the employment tax?

Wages subject to employment tax do not include the value of food, lodging, clothing, and other non-cash items you give your household employee. However, cash you give your employee in place of these items is included in wages.

If you reimburse the amount your employee pays to commute to your home by public transit (bus, train, etc.), do not count the reimbursement (up to $280 per month in 2022) as wages.

Further, if you reimburse your employee for the cost of parking at or near a location from which your employee commutes to your home, do not count the reimbursement (up to $280 a month in 2022) as wages.

I'm not sure yet whether I'll pay enough this year to require withholding. What should I do?

You should withhold the employee's share of Social Security and Medicare taxes if you expect to pay your household employee Social Security and Medicare wages of $2,400 or more in 2022.

If you withhold the taxes but then actually pay the employee less than $2,400 in Social Security and Medicare wages for the year, you should repay the employee.

Okay, I've withheld tax on the employee and I owe the employer's share. How do I pay these amounts?

You pay withheld taxes as part of your regular income tax obligation. You don't deposit them periodically. If you make an error by withholding too little, you should withhold additional taxes from a later payment. If you withhold too much, you should repay the employee.

Do I have to reduce the worker's take-home pay by the tax on that pay?

If you prefer to pay your employee's Social Security and Medicare taxes from your own funds, you do not have to withhold them from your employee's wages. The Social Security and Medicare taxes you pay to cover your employee's share must be included in the employee's wages for income tax purposes. However, they are not counted as Social Security and Medicare wages or as federal unemployment (FUTA) wages.

In what cases do I owe unemployment tax?

The federal unemployment tax is part of the federal and state program under the Federal Unemployment Tax Act (FUTA) that pays unemployment compensation to workers who lose their jobs. You may owe only the FUTA tax or only the state unemployment tax, or both. To find out whether you will owe state unemployment tax, contact your state's unemployment tax agency.

If you pay cash wages to household employees totaling $1,000 or more in any calendar quarter of 2021 or 2022, the first $7,000 of cash wages you pay to each household employee in 2022 is FUTA wages. If you pay less than $1,000 cash wages in each calendar quarter of 2022, but you had a household employee in 2021, the cash wages you pay in 2022 may still be FUTA wages. They are FUTA wages if the cash wages you paid to household employees in any calendar quarter of 2021 or 2022 totaled $1,000 or more.

Do not withhold the FUTA tax from your employee's wages. You must pay it from your own funds.

Do I need to withhold federal income tax?

You are not required to withhold federal income tax from wages you pay a household employee. You should withhold federal income tax only if your household employee asks you to withhold it and you agree. The employee must give you a completed Form W-4, Employee's Withholding Allowance Certificate. If you agree to withhold federal income tax, you are responsible for paying it to the IRS.

You figure federal income tax withholding on both cash and non-cash wages you pay. Measure non-cash wages by the value of the non-cash item. Do not count as wages any of the following items:

- Meals provided at your home for your convenience.
- Lodging provided at your home for your convenience and as a condition of employment.
- Up to $280 a month in 2022 for bus or train tokens (passes) you give your employee, or in some cases for cash reimbursement you make for the amount your employee pays to commute to your home by public transit.
- Up to $280 a month in 2022 to reimburse your employee for the cost of parking at or near your home or at or near a location from which your employee commutes to your home.

Any income tax you pay for your employee without withholding it from the employee's wages must be included in the employee's wages for federal income tax purposes. It is also counted as Social Security, Medicare, and FUTA wages.

What about Earned Income Credit (EIC)? What must I do?

Certain workers can take the earned income credit (EIC) on their federal income tax return. This credit reduces their tax or allows them to receive a payment from the IRS if they do not owe tax. You must give your household employee a notice about the EIC if you agree to withhold federal income tax from the employee's wages and the income tax withholding tables show that no tax should be withheld. Even if not required, you are encouraged to give the employee a notice about the EIC if his or her 2022 wages are less than $59,187.

The employee's copy (Copy B) of the IRS 2022 Form W-2,*Wage and Tax Statement* has a statement about the EIC on the back. If you give your employee that copy by January 31, 2022 (as discussed under Form W-2), you do not have to give the employee any other notice about the EIC.

What federal tax forms must I file if I have a household employee?

Form W-2 and Schedule H of Form 1040. Specifically:

- A separate Form W-2, *Wage and Tax Statement*, must be filed for each household employee to whom you pay Social Security and Medicare wages or wages from which you withhold federal income tax. Give Copies B, C, and 2 to your employee by January 31, 2022, and send Copy A of Form W-2 with Form W-3, Transmittal of Wage and Tax Statements, to the Social Security Administration by January 31, 2022.
- Use Schedule H (Form 1040), *Household Employment Taxes*, to report the federal employment taxes for your household employee if you pay the employee Social Security and Medicare wages, FUTA wages, or wages from which you withhold federal income tax.
- File Schedule H with your federal income tax return. If you are not required to file a tax return, file Schedule H by itself.

Avoiding Scams: Frequently Asked Questions

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How can I spot a rip-off?

By taking the following precautions, you can spot a scam and avoid being ripped off.

- Don't allow yourself to be pushed into a hurried decision. At least 99 percent of everything that's a good deal today will still be a good deal a week from now.
- Always request written information, by mail, about the product, service, investment or charity and about the organization that's offering it.
- Don't make any investment or purchase you don't fully understand. Swindlers try to convince individuals that they are making an informed decision.

- Ask what state or federal agencies the firm is regulated by, and contact the agency. If the firm says it's not subject to any regulation, you may want to act cautiously.
- If an investment or major purchase is involved, request that information also be sent to your accountant, financial advisor, banker, or attorney for evaluation and an opinion.
- Before you make a final financial commitment, ask for a copy of the refund policy and make sure it's in writing.
- Beware of testimonials that you may have no way of checking out.
- Never provide your credit card number and bank account information over the phone.
- If necessary, hang up or walk away. If you hear your own better judgment whispering that you may be making a serious mistake, just say good-bye.

What should I know about Internet fraud?

Internet crime such as identity theft and online fraud exceeded $6.9 billion in losses in 2021 according to an Internet Crime Complaint Center (IC3) estimate. It only gets worse every year and underscores the fact that both legitimate businesses and scam artists alike have equal access to the Internet. Among the 2021 complaints received, ransomware, business e-mail compromise (BEC) schemes, and the criminal use of cryptocurrency are among the top incidents reported, according their 2021 annual report.

How can you avoid being snared by Internet fraud? Simple. If it sounds too good to be true, it is. Claims of "quick profits", "guaranteed returns", "double your investment", or "risk-free investment" probably indicate a fraudulent investment.

What are some of the Internet scams I should watch out for?

New scams appear every year, but usually with the same themes. Here are a few of them:

Refund Scam. This is the most frequent IRS-impersonation scam seen by the IRS. In this phishing scam, a bogus email claiming to come from the IRS tells the consumer that he or she is eligible to receive a tax refund for a specified amount. It may use the phrase "last annual calculations of your fiscal activity."

To claim the tax refund, the consumer must open an attachment or click on a link contained in the e-mail to access and complete a claim form. The form requires the entry of personal and financial information. Several variations on the refund scam have claimed to come from the Exempt Organizations area of the IRS or the name and signature of a genuine or made-up IRS executive. In reality, taxpayers do not complete a special form to obtain their federal tax refund because refunds are triggered by the tax return they submitted to the IRS.

Lottery winnings or cash consignment. These advance fee scam e-mails claim to come from the Treasury Department to notify recipients that they'll receive millions of dollars in recovered funds or lottery winnings or cash consignment if they provide certain personal information, including phone numbers, via return e-mail. The e-mail may be just the first step in a multi-step scheme, in which the victim is later contacted by telephone or further e-mail and instructed to deposit taxes on the funds or winnings before they can receive any of it.

Alternatively, they may be sent a phony check of the funds or winnings and told to deposit it but pay 10 percent in taxes or fees. Thinking that the check must have cleared the bank and is genuine, some people comply. However, the scammers, not the Treasury Department, will get the taxes or fees. In reality, the Treasury Department does not become involved in notification of inheritances or lottery or other winnings.

Romance Scams. Scammers sometimes use online dating and social networking sites to try to convince people to send money in the name of love. In a typical scenario, the scam artist creates a fake profile, gains the trust of an online love interest, and then asks that person to wire money, typically to a location outside the United States.

Warning signs of a romance or online dating scam include wanting to leave the dating site immediately and use personal e-mail or IM accounts, claiming feelings of instant love, planning to visit, but being unable to do so because of a tragic event, and asking for money to pay for travel, visas or other travel documents, medication, a child or other relative's hospital bills, recovery from a temporary financial setback, or expenses while a big business deal comes through.

How can I prevent the illegal use of my credit card or Social Security number?

Criminals and con artists use many scams to target unsuspecting people who have access to money. Consumer scams happen on the phone, through the mail, e-mail, or over the internet. They can occur in person, at home, or at a business.

The Consumer Financial Protection Bureau (CFPB) is a U.S. government agency that makes sure banks, lenders, and other financial companies treat you fairly, suggests these six tips for consumers to protect themselves from scams:

1. **Don't share account numbers or passwords for bank accounts, credit cards, or Social Security.**
2. **Never pay upfront for a promised prize.** It’s a scam if you are told that you must pay fees or taxes to receive a prize or other financial windfall.
3. **After hearing a sales pitch, take time to compare prices.** Ask for information in writing and read it carefully.
4. **Too good to be true?** Ask yourself why someone is trying so hard to give you a "great deal." If it sounds too good to be true, it probably is.
5. **Watch out for deals that are only "good today" and that pressure you to act quickly.** Walk away from high-pressure sales tactics that don't allow you time to read a contract or get legal advice before signing. Also, don't fall for the sales pitch that says you need to pay immediately, for example by wiring the money or sending it by courier.
6. **Put your number on the National Do Not Call Registry.** Go to Do Not Call Registry or call (888) 382-1222.

"Application fraud" occurs when a thief uses your name, Social Security number, address, and, perhaps, credit references to apply for credit. They can get much of this information from public sources (e.g., Who's Who Directories), from someone who has access to credit files (e.g., employees of car dealerships, department stores, or credit bureaus), from personal checks, or from stolen wallets.

Another form of application fraud involves the interception of the preapproved credit card offers in the mail. The thief fills out the application and either changes the address or steals the credit card out of your mailbox when it arrives at your address.

> If you find a bill that you do not believe belongs to you on your credit report, check it out immediately. First, contact the creditor to find out if they have an account in your name. Ask to see a copy of the original application if they say you do.

How trustworthy are "credit clinics" and other organizations that claim to help me out of financial trouble?

Consumers with credit problems have paid millions of dollars to firms that claim they can "remove negative information," "clean up credit reports," and allow consumers to get credit no matter how bad the credit history. Consumers should beware of the following promises by credit clinics:

- "Based on little-known loopholes in Federal credit laws, we can show you how to clean up your credit report!"

The loopholes are the provisions of the Fair Credit Reporting Act (FCRA), under which you have the right to challenge information in your credit report you believe incorrect.

- "We can show you how to remove negative information from your file including judgments."

No matter how quickly you may pay off outstanding bills, creditors are under no obligation to remove negative information from your file.

- "We can get you a major credit card even if you've been through bankruptcy!"

You will have to "secure" the card first by putting a deposit in the bank and getting a bank card with a credit limit based on a percentage of that deposit. Why should you pay the credit clinic just to provide an application and deposit slip?

Check with your state attorney general's office to determine if your state has laws that protect consumers against credit clinics and contact your state Attorney General, consumer protection agency, or Better Business Bureau to check an organization's reputation.

How honest are ads touting "federal government surplus" sales?

Advertisements touting access to little-known sources of federal government property are simply selling the names and addresses of the federal government agencies, which you can get from the federal government or by contacting the agency's local or regional office. Furthermore, the information sold by these businesses may not be accurate or up-to-date. Information about federal sales programs is available for free or at low cost from the federal government by visiting: Government Sales and Auctions.

How can I protect myself from penny stock scams?

Penny stocks are common shares of small public companies that trade at less than $1.00 per share. They are considered to be highly speculative and high risk and are traded over the counter and are prime targets for price manipulation. Here is how a penny stock scam might operate:

> Mrs. G got a call from Mr. S, who told her he wanted to help her out with a "little-known" investment bonanza. These penny stocks' prices could rise by 25 percent in a few months. After she was told to act before the opportunity

> vanished, Mrs. G invested $5,000 in the penny stocks. Result: She is still trying to get back her $5,000.
>
> Although she was told during the first few weeks that the stock was going up, within a month the seller was not returning her phone calls. She could not check the price of the stock because penny stocks are not traded on an exchange, but over-the-counter.
>
> Further, the price of the penny stock was not published anywhere. Mr. S's company was the only seller of these particular penny stocks and had been engaging in price manipulation. Eventually, Mrs. G. turned the case over to her attorney. Half of her $5,000 went in the markup of the penny stock's actual price and hidden commissions.

Penny stocks can be a legitimate investment opportunity if you learn to be alert, but with the proliferation of the Internet, these stocks are often quite risky for the average investor. Learn the following warning signs investigate before you invest.

Warning Sign #1: Unsolicited Telephone Calls

Beware of a salesperson who promises you quick profits with little or no risk.

Warning Sign #2: High-Pressure Sales Tactics

These tactics include the following statements by a salesperson:

- The salesperson has "inside" information on a stock and that you should purchase now, before the information becomes public
- For only for a short period of time, a stock sells at a special or below market price
- Due to a series of increases in a stock's price, you should purchase immediately
- You may buy a particular stock only if you agree to buy stock of another company

Warning Sign #3: Inability to Sell Your Stock and Receive Cash

Fraudulent penny stock brokers may become inaccessible when you want to sell, or they may refuse to sell your stock unless you buy another one.

How can I protect myself from a pyramid scheme?

The best way to protect yourself is to understand how pyramid schemes operate, as this example shows:

> Frank L. was phoned by a friend and offered an opportunity to "get in on the ground floor" of a business involving selling products to the public. He was told he would get a 50 percent return on his money within a month and how his friend had made thousands of dollars on a $1,000 investment. Frank L. quickly accepted the offer and gave his friend $1,000 to buy a "distributorship" in this business.
>
> What Frank didn't know was that his friend had fallen victim to a pyramid scheme. Such schemes work as follows: A promoter offers investors "distributorships" at $1,000 each. The distributorships give the investor the right to sell other distributorships to friends and neighbors for $1,000 each, and also a right to sell some sort of product. Whenever an investor sells a $1,000 distributorship, he or she must give a percentage, usually half, to the promoter, and can keep the rest.

The tricky thing about pyramid schemes is that, for the first ten or twenty investors, they work. But, the pyramid scheme could continue to provide returns only in a world where there are infinite numbers of investors willing to invest $1,000, and willing (and able) to sell distributorships to others. Returns depend totally on new investors making an investment rather than on any business venture.

Result: Because Frank had no sales ability, he was unable to unload even one distributorship, and thus the $1,000 was lost. He is currently trying to get his money back and has reported the investment to the SEC.

How can I protect myself from a Ponzi scheme?

Named for Charles A. Ponzi, who defrauded hundreds of investors in the 1920s, a Ponzi scheme pays off old "investors" with money coming in from new "investors."

> Investor A gives Promoter ("P") $1,000 on P's promise to repay $1,000 plus $100 "interest" in 90 days. During the 90 days, P makes similar promises to Investors B and C, receiving $1,000 each from them. At the end of the first 90 day period, P may offer to pay A the $100 "interest" and to return the original $1,000.
>
> More likely, he will invite A to "re-invest" the $1000 plus the $100 "interest" for a similar, or higher, return at the end of another 90 days. Thereafter, A, believing s/he can receive a good return on the investment, is likely to bring other investors to P.

P collects a pool of money that he pays out to those wishing a return on their invested money. Eventually, P. either disappears with all the "investments" or reveals that the investments went "sour."

A major factor in the eventual collapse of a Ponzi scheme is that there is no significant source of "income" other than from new investors.

How can I protect myself from travel scams?

Since travel services usually have to be paid for in advance, disreputable individuals and companies try to sell travel packages turn out to be different from what was presented. If you receive an offer by phone or mail for a free or extremely low-priced vacation trip to a popular destination (often Hawaii or Florida), there are a few things you should look for:

- Does the price seem too good to be true? If so, it probably is.
- Are you asked to give your credit card number over the phone?
- Are you pressured to make an immediate decision?
- Is the carrier simply identified as "a major airline", or does the representative offer a collection of airlines without being able to say which one you will be on?
- Is the representative unable or unwilling to give you a street address for the company?
- Finally, you are told you can't leave for at least two months? (The deadline for disputing a credit card charge is within 60 days of the charge appearing on your credit card statement and most scam artists know this.)

If you encounter any of these symptoms, ask for written information and time to think it over. If they say no, this probably isn't the trip for you. Furthermore, if you are told that you've won a free vacation, make sure you don't have to buy expensive hotel arrangements in order to get it.

If you are seriously considering the vacation offer, compare it to what you might obtain elsewhere. The appeal of free airfare or free accommodations often disguises the fact that the total price exceeds that of a regular package tour. Get written confirmation of the departure date. If the package involves standby or waitlist travel, or a reservation that can only be provided much later, ask if your payment is refundable if you want to cancel. If the destination is a beach resort, ask the seller how far the hotel is from the beach. Then ask the hotel.

Determine the complete cost of the trip in dollars, including all service charges, taxes, processing fees, etc. If you decide to buy the trip, paying by credit card gives you certain legal rights to pursue a chargeback (credit) if promised services aren't delivered.

When buying a used car, how can I avoid buying a "lemon?"

Laundered lemons-used cars with serious defects, sold to unsuspecting new buyers are still being sold in alarming numbers. To avoid buying a "laundered lemon", take these steps.

Do your research. Check Consumer Reports and Edmunds online. Both publish car reviews and are good sources for finding out whether a vehicle is reliable and has been trouble-free.

Check for defects, repairs, and recalls. Visit the federal government's databases to find out whether the vehicle (make and model) you're interested in has been recalled, as well as service bulletins, safety investigations, and owner complaints. Check with your local dealer's service department to verify that the problem (if there was one) was taken care of.

Inspect the Vehicle. Conduct a thorough visual inspection inside and out. Look for signs of rust, mildew on carpeting, fluid leaks, bodywork repairs such as mismatched paint, and wear on tires. With the engine running check the exhaust smoke color and smell. Verify that the horn and lights are all working properly. Finally, have a reliable mechanic look it over. While it might cost a few bucks, he will be able to spot things you can't.

Vehicle History Report. If you know the car's VIN (Vehicle Identification Number), visit CarFax and enter it into their database to obtain a vehicle history report. The report will show you whether there are title problems, what the ownership history of the vehicle is, service records, and whether the vehicle has been involved in any accidents. The VIN is located on the driver's side dashboard.

Also consider the following:

- Beware of used cars with low mileage. These may be described as demo models or program cars, but may in fact be lemons.
- Try to get in touch with the previous owner, via the car's title. In some states, the title will tell you whether the car was a lemon-law vehicle.
- Beware of cars that come from another state.

How can I avoid being ripped off by auto mechanics?

It is estimated that anywhere from one-quarter to one-half of the $90 billion Americans spend every year on car repairs is wasted on the following scams:

1. **Only dealerships can perform maintenance.** This is not true. As long as you keep thorough records and the mechanic uses the correct fluids for your make and model, car maintenance can be performed by any mechanic without affecting your warranty. The only dealership-required service is warranty-related repairs and recalls.
2. **XYZ part will cost you $900.** If a mechanic tells you that you need an extensive repair or any large component, get a second opinion or two.
3. **Being charged to replace different parts to fix the same problem.** This usually indicates that the mechanic is having trouble diagnosing the problem. That may be the case, but you shouldn't be charged for it.
4. **The Secret Warranty.** Always ask a dealership service department whether a problem is covered by a manufacturer's warranty. (A manufacturer that discovers a widespread defect will often notify a dealership that repairs of the defect will be covered by the manufacturer.) There are only five states - California, Connecticut, Maryland, Virginia, and Wisconsin - in which it is illegal for a dealership not to tell you a repair is covered by a warranty.
5. If the defect is safety-related, you can call 800-424-9393 for a list of warranties and recalls or visit SaferCar.gov
   Flushing the engine. In general, the engine doesn't need to be flushed except for routine coolant replacement associated with normal maintenance.
6. **The $9.95 Tune-Up.** A common scam is to lure customers with an extremely low-priced oil-change or other service deal, and then to discover nonexistent problems while the car is on the lift.
7. **Double Billing.** You might be told, for example, that you need repairs done on your brakes, and then discover that you have been billed for several extra items, which are actually part of the brake repair job.

How can I avoid being pick-pocketed?

These tips on how to avoid becoming the victim of a con artist or pickpocket are provided by the New York City Police Department's Special Frauds Squad.

- Use handbags that have a zipper and locking flap and carry them securely with the flap side close to your body.
- Carry wallets inside your coat or side trouser pockets, never in your back pants pocket.
- Beware of loud arguments or commotions in crowded areas. Thieves working together may stage these incidents to distract you while your pocket is picked.
- Be aware that a pickpocket may bump or crowd you on public transportation.
- If your pocket is picked, call out immediately to warn the driver or conductor. Alert everyone that there's a pickpocket on board, and don't be afraid to shout.
- Avoid crowding in the area of the subway car doors when entering or exiting.
- Be on guard if a stranger directs your attention to a substance or stain on your clothes.
- Be on guard while doing your banking at an automatic teller machine.
- Be suspicious if you are approached by a stranger who claims to have just found an envelope full of money or tells you he has a winning lottery ticket with him. This could be the first step in a confidence crime, with you as the victim. Never discuss your personal finances with strangers, and don't draw money out of the bank at a stranger's suggestion in order to build trust in such a situation

Being aware of the most current scams is the best way to prevent falling prey to them. If you or someone you know has been a victim of a con artist, call your local police precinct immediately.