

The nanny tax:

Tips to help high-net-worth families manage caregiving costs



With fast-paced demands pulling them in different directions, high-net-worth (HNW) families increasingly rely on professionals to support the **caregiving needs** of children and aging family members. However, many are surprised to discover that paying household staff can trigger additional tax liabilities, thanks to the so-called “nanny tax.”

This term refers to the federal and state tax obligations that kick in when hiring household employees. For HNW clients, these costs can quickly add up, impacting cash flow, tax planning and the family’s overall wealth management strategy. It’s important to understand how this tax could impact your financial goals.

What is the nanny tax?

Nanny tax is the common name for the federal, and potentially state, employment taxes families must pay when they hire household employees such as nannies, elder caregivers, housekeepers, groundskeepers and other domestic workers.

In 2026, the nanny tax includes the following:

- **FICA (Federal Insurance Contributions Act):** This includes Social Security and Medicare and applies to households that pay \$3,000 or more in cash wages to any one household employee during the calendar year.
- **FUTA (Federal Unemployment Tax):** This tax applies to households that pay \$1,000 or more in total cash wages to household employees in any calendar quarter. There is a standard credit for state unemployment payments, which often reduces FUTA’s effective rate.

“Cash wages” include salaries, bonuses, overtime pay and other cash compensation in exchange for services. They do not include room and board or other non-cash benefits.

2026 Nanny Tax Obligations*

Tax	Rate	Who Pays	Details
Social Security	6.2% each	Employer & employee	On first \$184,500 of wages
Medicare	1.45% each	Employer & employee	No wage limit
Total FICA	15.3% combined	Split 7.65% each	Employer share is your extra cost
FUTA	6% (effectively 0.6% after credit)	Employer	On first \$7,000 per employee
Additional Medicare	0.9%	Employee	On wages that exceed \$200,000

*Some states also require that households pay state unemployment taxes, workers' compensation insurance and/or disability coverage.

As a hypothetical example, let's say you pay your children's nanny \$60,000 per year. You would owe the following taxes:

- **Employer share of FICA:** \$4,590 (\$3,720 Social Security + \$870 Medicare)
- **FUTA:** \$42
- **State unemployment:** Typically varies between \$100 to \$1,000+
- **Total costs:** Typically 10% to 20% above the employee's base salary.

Strategies for minimizing the impact of the nanny tax

Fortunately, there are several planning strategies that can help reduce the financial impact of the nanny tax.

Contribute to a dependent care flexible spending account (DCFSA)

DCFSA's are savings vehicles that allow you to contribute pre-tax dollars to cover caregiving costs for children and other dependents.

In 2026, households can contribute up to \$7,500 (\$3,750 if married and filing separately) to these tax-advantaged savings accounts. Because deferrals are made with pre-tax dollars, you avoid paying federal income tax on the contribution. You then pay your caregiver using personal funds and submit the pay stubs for reimbursement from the account. Withdrawals from the account are exempt from taxes when used to cover qualified caregiving expenses.

It's important to carefully plan your contributions to a DCFSA, as unused funds within the account are forfeited at the end of the year.

Claim the child and dependent care tax credit

In 2026, up to \$3,000 in qualifying expenses for one dependent or \$6,000 for two or more dependents can qualify for the child and dependent care tax credit. The exact credit is phased based on income, with higher earners qualifying for a 20% rate and lower earners able to claim a credit of up to 50%. For high-income households, the credit is typically capped at 20% of qualifying expenses, meaning maximum credit is generally up to \$1,200 for families with two or more dependents.

Offer tax-advantaged health benefits

Providing tax-advantaged health benefits might also be an option for both you and your employees. Qualified Small Employer Reimbursement Arrangements (QSHERAs) and Individual Coverage Health Reimbursement Arrangements (ICHRAs) allow employers to reimburse their employees for qualified medical expenses and individual health insurance premiums on a tax-free basis. When properly structured and administered, reimbursements generally are not subject to FICA, federal income tax or FUTA, which directly reduces your exposure to the nanny tax, and the tax-free reimbursement is an attractive benefit for employees that does not increase their taxable compensation. These arrangements can provide tax-efficient benefits but typically require careful legal, payroll and compliance review prior to implementation.



While QSHERAs and ICHRAs operate in a similar manner, there are a few key differences between the two.

Feature	QSEHRA	ICHRAs
Employer size	<50 FTEs only	Any size
Contribution limits	IRS caps (\$6,450 / \$13,100)	No federal limits
Employee classes	Uniform for all classes	Flexible classes allowed (based on part-time vs. full time status, geographic location, etc.)
Group health plan	Cannot offer one	Can coexist in some cases
Best for	Simple employee setups	Larger or more complex staff

The benefits of a combined approach

While DCFSA's, tax credits and healthcare reimbursements are all effective stand-alone strategies, they are most effective when they are combined and incorporated into your overall financial plan. When coordinated properly, these strategies may help reduce the after-tax cost of caregiving expenses. However, as with any financial consideration, when improperly implemented these strategies can lead to additional complexities and risks, which is why it's important to seek the guidance of a qualified advisor prior to taking action.

Managing household employment taxes, including the nanny tax, can be more complex than it may initially seem, especially for families balancing multiple priorities. Your advisor can help you navigate these obligations while working to potentially reduce your tax exposure in a way that aligns with your overall financial goals and long-term strategy.

For more information visit: mariner.com

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