

A Parent's Guide To Paying Your Kids

THE STEP BY STEP GUIDE TO SHIFTING
INCOME AND BUILDING WEALTH AS A FAMILY



THIS GUIDE IS EDUCATIONAL ONLY, NOT TAX OR LEGAL ADVICE.



WHY PAY YOUR KIDS?

Most parents don't know this strategy exists. I didn't either until a CPA friend told me years ago. Once I understood it, I started paying my daughter for real work in our business, and I never looked back.

It saves taxes, teaches real skills, and shifts money inside the family instead of sending it to the IRS.

Here is the basic idea. You pay your child for work the business actually needs. The income moves from your high tax bracket into their zero tax bracket.

Example

If you pay your child \$6,000 and you're in a 30 percent bracket, you keep about \$1,800 that used to go to the IRS. That money stays in your family.

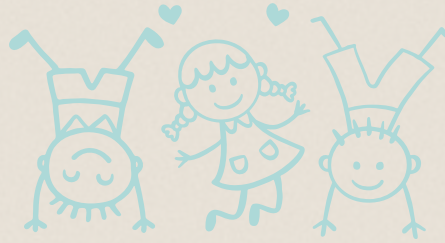
My daughter started earning money at age five. She helped with small tasks and took them seriously. Now she understands how money works in a way I didn't until adulthood. That alone has been worth it.

Benefits go beyond taxes

- Your kids learn how to work, earn, and save
- They build real confidence
- They start life with better habits and better opportunities

This is one of the simplest tax strategies families can use, and it creates a much bigger upside than any allowance or chore system ever could.

Jennifer Beaudin



Who This Works For

Most parents can do this if they have a real business or rental activity. It does not matter whether you sell products online, own rentals, run a coaching business, or flip houses. If the business is legitimate, this strategy is an option.

Your child must do real work that benefits the business. There is no minimum age written in the tax code. The IRS only cares that the work is real and the pay is reasonable.

A five-year-old who can sort receipts or wipe down baseboards qualifies. A toddler who can't stay on task does not.

To make this work correctly, the business itself has to be the one paying them. Not you personally. That means you need a proper entity or sole proprietorship.

Most parents use one of the following:

- Single-member LLC
- LLC taxed as an S Corp
- Sole proprietorship
- Parent-owned partnership

Here is the big tax benefit. In a sole proprietorship or parent-owned LLC, wages paid to your own child under age 18 are exempt from Social Security and Medicare taxes under IRC Section 3121(b)(3)(A).

That is why many parents run payroll through a parent-owned LLC instead of a corporation.

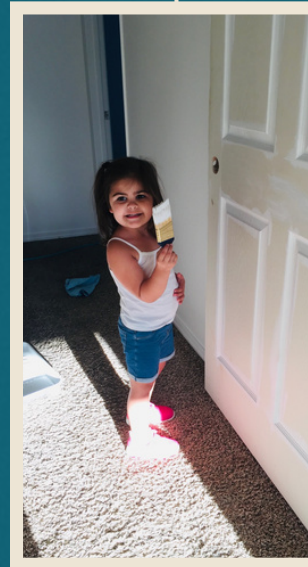
If your business is structured as an S Corp, a C Corp, or a partnership with non-parent partners, then payroll taxes apply. It still works, but the mechanics change.

WHAT KIDS CAN DO

A lot of parents overthink this. Kids can do real and useful work.

Here are jobs that fit perfectly for most small businesses and real estate:

- Cleaning or organizing rental units
- Painting
- Property due diligence
- Stocking supplies
- Sorting receipts or scanning paperwork
- Data entry
- Stuffing mailers or packaging client gifts
- Opening mail
- Mobile deposits
- Taking photos or videos
- Posting content or helping with Canva
- Filing documents
- Research and simple spreadsheets



CONCLUSION

The work must be real. The pay must be fair. That's it.

How Much You Can Pay and How to Pay It

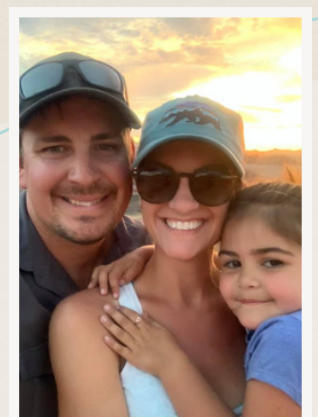
In 2026, your child can earn up to \$16,100 without owing federal income tax, as long as they do not have other taxable income. That means you can move up to \$16,100 out of your higher tax bracket and into their zero percent bracket.

If they stay under that limit, they likely do not need to file a federal return. Your business still gets the deduction, and the money stays in your family instead of going to the IRS.

The cleanest and most compliant way to pay your child is to issue a W-2 through your CPA or payroll provider. This keeps everything documented, makes Roth IRA contributions straightforward, and avoids confusion during an audit.

Quick example:

You pay your child \$10,000 for real work. That is below the \$16,100 limit. Your business deducts the expense. Your child owes zero federal income tax. You reduced your tax bill and your child learned how to earn real money.



DOCUMENTATION



Documentation is the key to doing this right. If you can't prove the work, it could get thrown out in an audit.

Keep

- Job description
- Timesheets
- Work samples or proof of tasks
- Payment records from a business account
- Photos or digital logs showing the work

Keep records at least three years.

ROTH IRA FOR KIDS

Once your child earns money, they qualify to open a Roth IRA. This is one of the most powerful wealth-building tools you can give them.

A Roth IRA grows tax-free, and withdrawals later in life are tax-free. When you start this early, the long-term impact is huge.

For 2026, the Roth IRA contribution limit is \$7,500. Your child can contribute up to the amount they actually earned. If they earn \$7,500 or more, they can max out the full contribution for the year. If they earn less, their contribution is limited to their earned income.

Here is what the math looks like:

If your child contributes \$7,500 per year from age 5 to 18, then never contributes another dollar, and their account grows at an average of 8 percent per year, that money could grow to more than \$2.3 million by age 65.

In our family, we use Vanguard to set up custodial Roth IRA accounts because it is free and easy to manage.

We also opened a separate bank account at Chase so earnings can be deposited, tracked, and transferred cleanly.



Making this easy

Here is a simple workflow:

- Decide which tasks your child can do
- Pick a reasonable hourly rate
- Track hours every week
- Pay your child through your business, not personally
- Deposit earnings into their own bank account
- Then move money into their Roth IRA
- Keep every document in a file or folder



Action Steps

Step 1. Choose age-appropriate tasks

Step 2. Confirm you have a proper business entity

Step 3. Decide how much to pay and how often

Step 4. Track all hours and tasks

Step 5. Pay your child from the business

Step 6. Issue a W-2 at year end

Step 7. Optional: Open a Roth IRA and fund it with part of their earnings

Final Thoughts

Most parents never hear about this strategy. The ones who do often think it is complicated or “for wealthy people.” It isn’t. It is available to almost any business owner with kids who can do meaningful work.

You can lower your tax bill. You can give your kids real skills. You can help them build a net worth before they even have a driver’s license. It just takes a little structure and consistency.

Start with one task. Track the hours. Pay them through the business. Open the Roth IRA when you can. Repeat each year.

A few years from now, your child will know how to work, earn, save, and invest. That alone is worth the effort. The tax savings make it even better.

You’ve got this. And your kids will thank you later.

