2-2010

Household Employer Payroll Tax Evasion: An Exploration Based on IRS Data and on Interviews with Employers and Domestic Workers

Catherine B. Haskins
University of Massachusetts Amherst

HOUSEHOLD EMPLOYER PAYROLL TAX EVASION: AN EXPLORATION BASED ON IRS DATA AND ON INTERVIEWS WITH EMPLOYERS AND DOMESTIC WORKERS

A Dissertation Presented

by

CATHERINE B. HASKINS

Submitted to the Graduate School of the
University of Massachusetts Amherst in partial fulfillment
of the requirements for the degree of

DOCTOR OF PHILOSOPHY

February 2010

Department of Economics

HOUSEHOLD EMPLOYER PAYROLL TAX EVASION: AN EXPLORATION BASED ON IRS DATA AND ON INTERVIEWS WITH EMPLOYERS AND DOMESTIC WORKERS

A Dissertation Presented

by

CATHERINE B. HASKINS

Approved as to style and content by:

____
Nancy Folbre, Chair

____
Lisa Saunders, Member

____
Melissa Woodard, Member

____
Diane Flaherty, Department Head
Department of Economics

DEDICATION

I dedicate this dissertation to all of those who persevere with hope in pursuit of their ideals and their dreams, one day at a time, believing that small actions consistently taken can lead to positive change for ourselves and for the world around us.

ACKNOWLEDGMENTS

I would like to thank my advisor, Professor Nancy Folbre, for her patience, skill, and time expended on improving this dissertation, her encouragement and kindness in the process, and her inspiration in the first place. Professors Lisa Saunders and Melissa Woodard contributed significantly by making me dig deeper for a richer finished product. None of the quantitative section of my work would have been possible without the generosity and expertise of Kim Bloomquist of the IRS Office of Research, although all errors are my own. I am also enormously grateful for the love and faithful support of my husband Carl Nilson and my daughter Jane Nilson. Finally, I thank my dear friend Irene Blakemore, who provided years of support and the wisdom gained from finishing a marathon in every state.

ABSTRACT

HOUSEHOLD EMPLOYER PAYROLL TAX EVASION: AN EXPLORATION BASED ON IRS DATA AND ON INTERVIEWS WITH EMPLOYERS AND DOMESTIC WORKERS

FEBRUARY, 2010

CATHERINE B. HASKINS, B.A., HARVARD UNIVERSITY

Ph.D., UNIVERSITY OF MASSACHUSETTS AMHERST

Directed by: Professor Nancy Folbre

Although many workers have a private household as their workplace, many household employers are unaware of or fail to meet their state and federal payroll tax obligations, thus undermining the workers' retirement income security. This dissertation uses sixty interviews with household employers and employees in the Washington, DC, area to investigate the causes and conditions of nanny tax evasion. Ethnographic fieldwork and semi-structured interviews indicate that lack of awareness, tax complexity, social norms of noncompliance, and poor personal ethics diminish payroll tax payment; concern over one's job, personal ethics and altruistic concern for the employee motivate compliance. An analysis of limited IRS data on audits as well as data on Schedule H household employment payroll tax returns reveal that although some unpaid tax was discovered, almost as much tax paid in error was refunded, confirming the importance of complexity as a determinant of compliance. Analysis of results using Kohlberg's stages of moral development and force field analysis of motives provides insight into employers' decisions to pay or evade their nanny taxes. Policy recommendations emphasize increasing public awareness, tax simplification, and enforcement.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1

HOUSEHOLD EMPLOYERS AND EMPLOYEES IN THE U.S.

1.1 Overview

This study uses both qualitative and quantitative methods to examine the determinants of employer compliance with household payroll tax obligations in the U.S. The qualitative analysis explores the experiences of sixty individuals involved in the household labor market in an affluent Washington, DC, neighborhood. I also combine an analysis of Internal Revenue Service tax return data – some of it from audits – with government figures on the size of the private household workforce in order to estimate the amount of payroll tax evasion among household employers. Non-payment of these taxes – known informally as "nanny taxes" – has bitter consequences for the retirement prospects of domestic employees. However, more employers might comply if it were easier for them to do so. The results of this study suggest that many employers unwittingly violate the payroll tax laws due to ignorance of the requirements. Many employers are also failing to pay due to the time-consuming complexity of state and federal nanny taxes, as well as due to their lack of experience or familiarity with payroll procedures. This dissertation also studies employers who successfully confronted these barriers in hopes of recognizing ways the IRS can support and increase compliance.

This is the first intensive quantitative exploration of nanny tax return data. It is also the first interview research on the topic. Tax compliance studies have hardly touched on the issue of household employment taxes. Nor have scholars of domestic labor focused on these taxes. This dissertation therefore makes a contribution to both of these bodies of knowledge. The study is guided by the following sets of research questions: (1.) How high is the nanny tax evasion rate? (2.) Why do so few people pay nanny taxes? Are existing economic models of tax compliance adequate to explain nanny tax compliance behavior? If not, in what ways do they need to be extended? (3.) Why do some people pay nanny taxes? What barriers do they face? How have they overcome those barriers? (4.) For household employers, how do perceptions and values in the context of the household shape the economic decision to pay these taxes?

This research on household employment taxes presents insights gained from open, revealing, and trust-based interviews with thirty household employers and thirty household employees under conditions of strictly preserved anonymity. Although the availability of undocumented workers is likely to impact the amount of employer payroll tax compliance, this study did not address that issue nor did the study include any members of the undocumented workforce.

The quantitative part of the study utilizes several kinds of IRS tax data, some aggregate data on all nanny tax filers, some trend data over the eleven years available, and some data drawn from a 2001 IRS research sample. I examine the prevalence of certain exemptions and credits among nanny tax filers compared with non-nanny tax filers as well as examine the shapes of the distributions of nanny tax amounts for a specific year. Finally, drawing on Census 2000 data, American Community Survey data, and Bureau of Labor Statistics data on the number of household workers in the U.S., I compare the number of Schedule H's filed 1996 - 2006 in order to estimate the nanny tax evasion rate for each year. That is, I can estimate the amount of evasion by dividing the number of household employment tax returns submitted in a given year by the best available measure of the size of the private household employment industry in that year. There are variations in worker counts between surveys (the 2000 Census counted almost 580,000 while the BLS figures based on the Current Population Survey counted 894,000 for the same year) as well as the problem of undercounting and survey refusal in some low-income areas. Nonetheless, based on most recent available figures, the nanny tax evasion rate has a lower bound of almost seventy-five percent.

The ethnographic part of the study involved thirty Filipina nannies (I use the term nannies to mean private child care providers, not officially trained or accredited professionals) and housekeepers employed full-time in an affluent neighborhood and thirty household employers of full-time employees. Snowball sampling produced potential subjects, who were then carefully informed of the risks, however minimal, of discussing tax compliance with the researcher. I conducted sixty in-depth issue-based interviews to deepen my understanding of tax compliance behavior in general, and of the behavior of household employers in particular. I used the ocular scan method to analyze this qualitative data. Both before and after specific themes emerged from the material, I reviewed the data meticulously to ensure accurate representation of my findings.

Basic tax evasion models emphasize detection probability, penalty size, income level, and tax size. These make intuitive sense in their context, the economics of crime, as well as in the general case of tax evasion. However, not all appear significant in the specific case of nanny tax evasion. Briefly, the interview results confirm the importance of detection probability and penalty. However, participants appeared to perceive only two levels of detection probability and associated penalty. Some employers perceived a high detection probability and paid out of fear that a non-IRS detection would occur and they would pay a significant career-related "penalty." Other employers, perceiving a very low detection probability, responded by ignoring the tax because of the small chance of IRS detection and the lack of any high-impact penalty unique to nanny tax evasion. Tax size and income size, the classic tax evasion model's other two variables, did not appear to motivate or retard compliance.

The peculiar nature of nanny taxes gave rise to a number of noncompliance drivers not in traditional models. Ambition, personal concern for the worker, personal ethics, political views, and social norms all had a determining influence on payroll tax compliance. The nanny tax can be seen as a tax on political ambitions, or as an insurance policy for a viable political future. The results also showed that altruism was a strong motivator. Many household employers derived utility from fulfilling their employer responsibilities, including being nanny tax compliant despite there being little chance of being caught evading. The dissertation concludes with ten policy recommendations. Based on evidence that complexity stymies otherwise willing nanny tax payers, some recommendations involve obvious simplifications of the tax code. I propose other recommendations aimed at raising awareness of the problem and increasing the likelihood that evaders are detected.

1.2 Introduction

According to economic theory, few people should ever pay household employer payroll taxes. These taxes are known universally as "nanny taxes" though payroll taxes are owed on all private household workers.[1] The detection probability, a key variable in the standard tax compliance model, is almost zero, indicating that compliance should be extremely low. Most individuals do not in fact file the frequent, complex and onerous forms required to carry out this legal obligation of every employer; instead, the public associates the term nanny tax with public officials or would-be appointees suddenly confronted with omissions in their tax records.[2] In 2006, household payroll tax filers, who must include Schedule H with their individual income tax returns, represented 0.15% of the individual income tax filing population. In fact, as Bloomquist and An (2006) noted, filings have monotonically declined from 317,010 to 207,111 between 1996 and 2006. Their study – the only one on the subject of nanny tax compliance – explored geographic variation in the rates at which these taxes were filed.

What is the most serious consequence of unpaid nanny taxes? It is not the tax revenue lost to the government. It is that these workers are not building a Social Security earnings record. When an employee works for a household instead of a business, they can lose the basic guarantee that they will have earned Social Security retirement benefits after ten years (forty quarters) of work, a level that increases with each additional quarter of earnings.

Missing out on Social Security eligibility also means missing out on part of Medicare health insurance. This publicly funded program for those 65 and older is the other retirement benefit funded by payroll deductions. 2.9% of the gross wages are designated for Medicare, 1.45% from the employee and a matching 1.45% from the employer. Forty quarters of covered employment entitle a person to Medicare Part A (Hospital Insurance) free of charge. Between thirty and thirty-nine quarters of credit entitle them to a compromise: paying only $244 a month for Part A. Workers with less than thirty quarters (seven and a half years) of covered employment must pay $443 a month.[3]

No other employment situation relies on the personal magnanimity of the employer to provide the employee with their chance to have Social Security benefits in old age. In the absence of career consequences, are household employers motivated enough to file nanny taxes out of awareness of and concern for the employee's well being in retirement? Feminist economists, sociologists and historians have long argued that the household is a realm apart, bereft of the protections and the entitlements that citizens possess in the world outside. Fraser and Gordon (1992), building on the work of T.H. Marshall (1950) make this case with specific reference to the United States, claiming that our social provisioning has, unlike Europe, moved only partially from a charity-based system to a modern citizenship-based entitlement system. Our system of social insurance is not universal; it is tied to earnings. Furthermore, for each paycheck individual employers write, they owe a federal payroll tax of 7.4% on that amount, just as workers owe 7.4% in FICA (Federal Insurance Contribution Amount). For every financial quarter that an employer circumvents this obligation by paying under the table, their employee's Social Security scorecard reads zero. The retirement security of each household employee depends on the ability and the willingness of an amateur boss to come to grips with a clog of obscure paperwork and quarterly state unemployment tax deadlines. Payroll taxes are complex and difficult. Because so few pay nanny taxes, the know-how is not common knowledge.

Although household employers are individually responsible for their own tax evasion, there are institutional and social forces shaping the nanny tax decision. One of these is the conflict of labor laws and regulations governing workplaces on one hand and resistance to government intrusion into the household on the other. The simple fact is that hired help is doing work that in earlier times was largely done by family, by unpaid, economically stranded adult women or orphans in exchange for a place to live, by girls kept out of school to care for younger siblings, and in the American South, by slave labor. Domestic workers are predominantly female (91.2%) and non-white (64.7%), according to 2000 Census estimates.[4] Labor economists and sociologists have documented the lower pay and poorer status of predominantly female occupations and non-white occupations (Lapidus and Figgart, 1998; Bergmann, 2002; Brown and Misra, 2003). Paid domestic labor is an excellent example of this.

Clearly, the availability of undocumented workers affects the tax compliance behavior of household employers. Despite the fact that the INS and the IRS do not customarily share information, with increasing government scrutiny, neither undocumented workers nor their employers are as comfortable filing taxes with a Taxpayer Identification Number (TIN) to build a record of earnings. Furthermore, since undocumented workers normally earn less than legal workers do, the undocumented workers crowd out the others, which also reduces household employment tax compliance.

In this dissertation, I analyze the results of my ethnographic study of sixty household employees and employers to determine the drivers of nanny tax compliance. I also use the best available IRS data on household employment tax returns in order to profile those who do in fact pay these taxes. I analyze 2006 IRS data on all of the quarter million or so tax returns containing a Schedule H. In order to examine data on the noncompliant, the study also scrutinizes an IRS weighted-sample data set containing pre- and post-audit information. Of the over 40,000 returns in this data set just over 400 returns contained – or were found to be missing – nanny tax payments. Given the existence of only one published study on household employment payroll taxes, this dissertation generates new knowledge that can be put to policy strategic use.

1.3 Background: The Employer's Decision

Paying household employment payroll taxes includes record keeping, calculations, check writing, and form completions for filing federal income, state income, and unemployment and workers ' compensation taxes four times a year. Nanny taxes are a tangle of federal and state tax obligations. At the federal level, the employer is required to file a Schedule H with their Form 1040.[5] This reports their household wages paid and calculates the employers' household payroll taxes. These include 6.2 percent of gross wages for Social Security tax and 1.45 percent for Medicare tax. The employee must pay the same amounts. In addition, there is federal unemployment tax, FUTA, on the first $7000 of employee wages. The states as well require quarterly pre-payments of income taxes. Furthermore, states often have workers compensation tax. Finally, the employer is required to withhold state income taxes and the employee's share of the FICA taxes mentioned above. These filings are due quarterly. The registration process and the paperwork are onerous for businesses and households alike.

Whatever the difficulties of keeping up with this routine on a regular basis, it is probably even harder for a household employer to learn how to do it in the first place. Consider when it is that a nanny usually begins employment. One time is the week a family arrives home from the hospital with a newborn or returns from overseas with an adopted child. The worker was likely hired beforehand, but her first week of work will ordinarily coincide with the advent of the child. The other very common time is one or two weeks prior to the point at which the new mother returns to work after a period of maternity leave, a household transition with logistical as well as emotional issues to solve. The bottom line is that the new employee is likely entering into the difficulties of a household with a newborn or newly adopted child. The amount of physical energy, administrative capacity and personal attention available to spend on the new nanny is very limited. This is the context in which a nanny's new employer is making the decision whether or not to pay nanny taxes.

The requirement for filing nanny taxes begins at the end of the financial quarter. The rule is that unless there are less than two weeks left until the end of the quarter, an employer must file those three types of tax for a new employee. Stiff penalties start right away after a missed deadline.

To begin with, in order to file household employment taxes, the employer must first obtain an identification number by registering with the state employment commission, which oversees unemployment and workers' compensation taxes. This is difficult because the state employment commission is designed for businesses rather than households. This makes it hard for a household employer to register. The tax collecting apparatus at the state level is set up to handle multiple employees and turnover of employees. For example, employers with one employee have usually satisfied the financial requirements of a state unemployment commission by March 31st. However, they are still compelled to submit an unemployment tax return for the remaining three quarters of the year. These quarterly filings involve paperwork designed for businesses with many employees.

The second employer tax obligation is the reporting of state (or District of Columbia) income taxes, which are levied and administered by the state-level revenue and tax departments and the state-level unemployment commissions. Federal level taxes are the third type required: federal income as well as the Social Security payroll and Medicare payroll taxes mentioned earlier. The household reports the employee's income on the household's own 1040 form but needs to send estimated payments four times a year as well.

A common complication arises when an employee lives in one state or jurisdiction and works in another one, a common situation in the Washington area for example. Some jurisdictions make allowances for this and have reciprocity agreements regarding state payroll taxes; some do not. Untangling which taxes must be paid to the employer's state of residence and which must be paid to the employee's state of residence adds one more layer of complication.

Household employers need to be researched separately from individual income taxpayers as well as separately from business taxpayers. On one hand, household employers are not trying to shelter their own income from the tax. On the other hand, neither are they a business seeking to shelter profits from tax. Rather, they are failing to pay a tax - their fair share as an employer - of the Social Security and Medicare obligations. The household lacks many of the supports a business has: expertise or institutional memory of how to handle payroll taxes, time and space resources devoted to administration, and peer support from other small business owners. In fact, state departments of revenue and state unemployment commissions do not distinguish between households and businesses. This causes the forms, instructions and procedures to be needlessly complex for the would-be household filer.

The details above should make clear that following the routine of compliance is hard. There is no special support beyond the lengthy IRS publications, such as the Instructions for Schedule H, a very long document. There seem to be two main reasons for this lack of assistance, which I will explore in my qualitative research. One is the fact that the tax code is law. Because of this, tax regulations cannot be officially written up in an easy-to-follow manner. Glossing over exceptions would give grounds for loopholes. Another reason is that this is not a commonly accepted tax, even granted that the affluent are more likely to incur it. There is simply not a lot of compliance with it, so no collective experience or knowledge accumulates in the culture.

An excellent analogy from the other end of the economic spectrum is tip income. People are generally aware that waiters' and waitresses' tips are not exactly tax-free, but that it is not the norm for wait staff to file proper tax returns on their tip income. The IRS rules for reporting tip income are quite complex, but there is little public pressure to overhaul the rules and the forms. The same is true of the seldom-paid nanny tax.

A final consideration in the employer's decision about household employment payroll tax compliance might be the personal income tax benefit to themselves. Almost anyone going to the trouble of paying nanny taxes is tax-savvy enough to take the Child and Dependent Care Tax Credit (CDCC). This credit is based on an allowed amount of up to $3000 of a dependent's qualified and properly documented care expenses ($6000 for two dependents). Based on family income, the CDCC begins at 35% of the allowed dependent care expenses, but surprisingly does not phase out at higher levels of income. It declines to 20% of allowed expenses for incomes greater than $43,000 (in 2009), but does not phase out entirely regardless of income level. Therefore, this credit ranges from $450 to $1050 for families with one child and from $900 to $2100 for those with two or more. The cost-benefit analysis of this tax credit for a family with one child paying more than $1050 in payroll taxes on a nanny (that is, paying an on-the-books nanny more than $14,189) is that they would "do better" by paying under the table than by receiving the credit. Similarly, a family having multiple children and paying more than $2100 in payroll taxes (paying wages of $28,378) would also have reached that break-even point at which the benefit of the credit is outweighed by the cost of the payroll taxes, all else equal.

As examples of household payroll taxes in action, I present three hypothetical scenarios. Based on reading and ethnographic research, they typify some common experiences. The cases illustrate the diversity of household employment situations, the ease of becoming a nanny tax evader unawares, and the challenge of getting the returns right.

In Case #1, a couple with children has a college student come in Friday or Saturday every evening for five hours so they can go out, except for a month in the summer when the family is away. They pay him $8 an hour. They owe household payroll taxes. ($8 x 5hrs x 48 wks = $1920, which is more than $1600). Their federal tax bill is $142.08. Because it never occurred to them to calculate and withhold the employee half, another 7.4%, from the two twenties they give him every week, they are now responsible for 14.8%, or $284.16. When the wife realizes she may pursue a judgeship, she hires an online company for $525 a year to handle everything properly. Unfortunately, her typo as she enters wage information into the computer that year costs her the seat two years later.

In Case #2, when a sudden opportunity to travel arrives, a woman employs a couple to finish putting in vegetable garden in for her and make sure the produce is delivered to the food bank on a weekly basis. She also asks them to pull down an old shed on her property and carefully dispose of the materials according to her instructions. Although they discuss a rate of $15 a piece per hour (she is trying to put some money in their pockets), she just gives them $1000 before she goes and another $1000 when she returns. She owes payroll taxes because they worked on her property and she directed how their work was to be done. As in Case #1, taxes were never discussed, calculated or withheld, so the employer owes $296 come April 15th although neither she nor the IRS are ever aware of it.

In Case #3, a nanny works ten hours a day Monday through Friday for a two-earner family. Her hourly rate is $18. Her gross pay is $900. She does not get any paid vacation, but was sick for a week thus earning $900 x 51wks = $45,900. Her employer deducts her FICA amounts (7.4%) along with state and federal income tax, which are based on the exemptions she claimed on her W-4. The employer owes $3396.60 in federal nanny tax. Although they could deploy the Child and Dependent Care Credit to offset this tax, they would still owe $2196.60. They are also responsible for quarterly state income tax filings of her income tax withholdings. In addition, they must file quarterly unemployment taxes, although they never owe anything after the first quarter. Their $180-an-hour accountant itemizes her bill: 15 hours at $180 were spent on his researching and complying with state and federal payroll tax filings, about 25% more than on the taxes themselves. The husband takes over the following year, but spends two hours per quarterly filing, for a total of 16 hours at the state level; the Schedule H is easy in comparison, one hour, but then he remembers the employee's raise partway through the year, which costs him an additional 3 hours of research and recalculation for a total of 20. His wife spends an hour a month keeping track of paychecks and running totals. They count themselves lucky to live in a state which does not require Workers' Compensation insurance.

The three types of tax due quarterly require significant effort in an assistance vacuum. Complexity, the general tax compliance literature indicates, is a major factor in compliance behavior. Congress, the IRS, state revenue departments and state unemployment insurance commissions each bear part of the responsibility for creating such a hard path to household payroll compliance.

1.4 Background: The Employee's Decision

Most workers are not employed by a household and have their payroll taxes paid as a matter of course by the business or institution which employs them. Many legal employees are paid under the table by businesses due to employees' desire to avoid taxes. Non-household employees who want to build a Social Security record in order to qualify for retirement benefits can easily find a company to work for which pays on the books. On the other hand, nannies, housekeepers, and other household employees who understand the benefit of a Social Security pension will find it hard to locate a domestic employer who knows how to file and is willing to file nanny taxes. The only eligibility requirement for receiving the United States' old-age income security pension is ten years' worth of covered employment. The ten years can be made up of any forty financial quarters that saw earnings above a certain threshold ($1700 for 2009). The definition of covered employment has expanded, always due to political pressure, over the life of this social insurance program. Employers in covered occupations have to pay the payroll taxes for their employees and withhold federal and state income taxes. Most notably, agricultural and domestic workers were originally ruled uncovered occupations, in order to help the Social Security Act pass a Congress with Southern Congressmen. Clearly, the more informally organized and less regulated an occupation is, the closer those employers are to being able to escape providing payroll taxes (and the resulting benefits) for their workers.

Of course, many workers do not want to work on the books but rather under the table. That is, many workers prefer to have cash in hand now rather than to build credits toward their retirement benefits. There are at least five reasons for this choice. One reason would be the lack of permission to work in the U.S., that is, being an undocumented worker. In years past, some undocumented workers were glad to have taxes withheld – even though they were not going to receive the money back as a tax refund - because this provided necessary work documentation to bolster amnesty applications (Mendez, 1998). However, due to the ever-tighter scrutiny of foreigners, which includes more vigorous enforcement of employers' verification processes, undocumented workers are now less likely to work on the books.

Although low-income taxpayers either owe nothing, or qualify for the Earned Income Tax Credit, the prospect of being liable for income taxes can be an additional disincentive. Paying into the Social Security system is inseparable from having one's wages reported for income tax purposes. In other words, payroll taxes are yoked to income taxes. There is no way to build up credit towards retirement without acknowledging that these wages are taxable income. Whether or not a person chooses to have income taxes withheld from their wages, payroll taxes are withheld, and the employer duly reports those wages to the Social Security Administration on a W-3 form as well as to the IRS. Through a process of matching Social Security numbers and Federal Employer Identification Numbers, the IRS and the Social Security Administration ensure that they have the same wage information for each employee. Therefore, the decision-maker choosing between working under the table or on the books faces not only the payroll taxes which promise future benefit, but also the prospect of income taxes, which do not.

A third issue is that of time preference.[6] How steeply an individual discounts future income is a subjective, personal question – analogous to risk tolerance, for example. The capacity to delay consumption does factor into the employee's decision to work over or under the table, but one also has to respect the impact of severe financial need. Employees who have the option of working under the table or on the books face a trade-off between cash today and a stream of benefits in the future. That trade-off is hard to evaluate properly without a good sense of the importance and value of that stream of future benefits. Of course, the future monthly benefit increases with increasing income, but it is also determined by the length of time until retirement. Assuming a person lives well past retirement age, the trade-off is a good one. However, at the age of

25, the cash in hand looks much larger than the future benefit. Of course, this discussion rests on the assumption that the Social Security system remains the same going forward.

Ignorance of the connection between current income taxes paid and Social Security withholdings is a fourth issue. There is no way to accrue credits towards eventual Social Security and Medicare benefits without participating in the formal tax system. That participation entails payment of federal and state income taxes as well. The earning of credits and the owing of regular income taxes are inseparably linked in the payroll system. So, paying regular income taxes *does* automatically help a worker build up future benefits. Many workers, of course, do not have a crystal-clear understanding of this, but as the great majority of individuals work for companies, their payroll matters are handled as a matter of course. This is not the case for those who work in the homes of families.

A fourth reason for choosing to work on a cash basis is a lack of basic knowledge of the tax system. In 2009, an unmarried individual can make $9350 before owing any tax; a single parent of one child can make $15,650 and a married parent of two can make $26,000. There are tax credits designed to transfer income to low-wage workers by being refundable, that is, even if there is no tax liability, this money is comes to the individual as a refund check. However, they must file a tax return, and have some earned income in the first place, in order to get it. The most important of these, the Earned Income Tax Credit or EITC, is a potentially valuable, refundable credit available to low-income individuals and families with at least some earned income. The credit being refundable means that even if a taxpayer has no tax liability, as is the case at very low levels of income, the whole credit will be given to them as a tax refund. Although taxpayers with no children qualify for a small amount (currently $438 maximum, completely phased out for incomes above $2,880), it is much more valuable for those with one child ($2,917 maximum, completely phased out for incomes above $33,995) or two children ($4,824 maximum, completely phased out for incomes above $41,646).[7]

At first glance, it seems very worthwhile for those domestic employees with children to work ‘on the books’ and file a tax return in order to qualify for the EITC. The eligibility rules do not require U.S. citizenship, in fact only six months residency is required, (in addition to being 26 years old or above). However, the child or children which qualify a taxpayer to be an EITC recipient must be a U.S. citizen, or a resident of the U.S., Canada, or Mexico. Even more restrictively, the child must live with the parent for more than half the year.[8] In this way, migrant domestic workers, even those from Mexico whose children remained year-round at home with family, would not be entitled to this desirable tax credit. The EITC is essentially an income transfer program administered through the tax system, and, as such, its rules are specifically designed to target specific categories of people, primarily those who have children living with them, and work but do not earn much.

Because the EITC is an artifact of the political process that creates tax policy, there is a clear slant away from benefiting children living in the home countries of foreign workers who are here to earn a living in the U.S. (Ventry, 1999). Migrant domestic workers who have their children living at home in their countries of origin would not benefit from this credit. However, for those with children here, and for U.S. citizens, this would be a good piece of information to share in encouraging workers to make the trade-off of participating in the tax system, or to encourage workers to lobby employers for the opportunity to work ‘above the table’.

Three other tax credits are available for those who have children who qualify as their dependents (by tests involving residency, relationship, support and age). These include the dependency exemption of $3650 per child, a Child and Dependent Care Credit, a non-refundable Child Tax Credit, and a refundable Additional Child Tax Credit. There is certainly a strong case to be made for campaigning to educate low-income workers about the advantages of filing tax returns, especially if they have children (Center for Budget and Policy Priorities, 2006). However, for migrant domestic workers from countries other than Mexico, each of these four credits (except the $438 of the EITC) disappear if their children do not live in the United States with them. Some workers from other countries do not know that they are covered under Social Security regardless of nationality, and will receive benefits even if they retire to their country of origin as long as they have built up forty quarters of properly taxed wages. (Many employers do not know this either.)

Employers have a deleterious impact on the Social Security accruals of their employees by failing to comply with nanny tax rules. To illustrate the financial significance of whether or not an employer pays payroll taxes, consider the projected Social Security benefits of six hypothetical minimum-wage workers. Three are retail workers, ages 25, 40, and 53, whose payroll taxes will paid until retirement at age 67, and three are domestic workers, also ages 25, 40, and 53. The domestic workers will only see 9, 11, and 13 years of their wages reported to Social Security because only a few of their employers will choose to pay payroll taxes.[9]

Table 1 and Figure 1 present the projected Social Security monthly benefit for each of the six work histories. Notice how for the first set of workers – the workers whose payroll taxes were paid – the number of years until retirement drive the benefit level. However, for the second set of workers, the reduction in covered years of employment significantly diminishes the eventual benefits.[10] The worker with only nine years of covered employment – regardless of wage level – does not qualify for benefits at all.[11]

Table 1: Comparison between Social Security Benefits Accruing to Fully-Covered and Occasionally-Covered Employment Histories

Hourly Wage	Annual Gross Salary	Monthly Gross Salary	Current Age	Years Payroll Tax Paid on Job	Projected Social Security Monthly Benefit
RETAIL WORKERS					
$6.55	$13,624	$1,135	25 years	42	$796
$6.55	$13,624	$1,135	40 years	43	$814
$6.55	$13,624	$1,135	53 years	43	$1,105
DOMESTIC WORKERS					
$6.55	$13,624	$1,135	25 years	13	$429
$6.55	$13,624	$1,135	40 years	11	$347
$6.55	$13,624	$1,135	53 years	9	$1

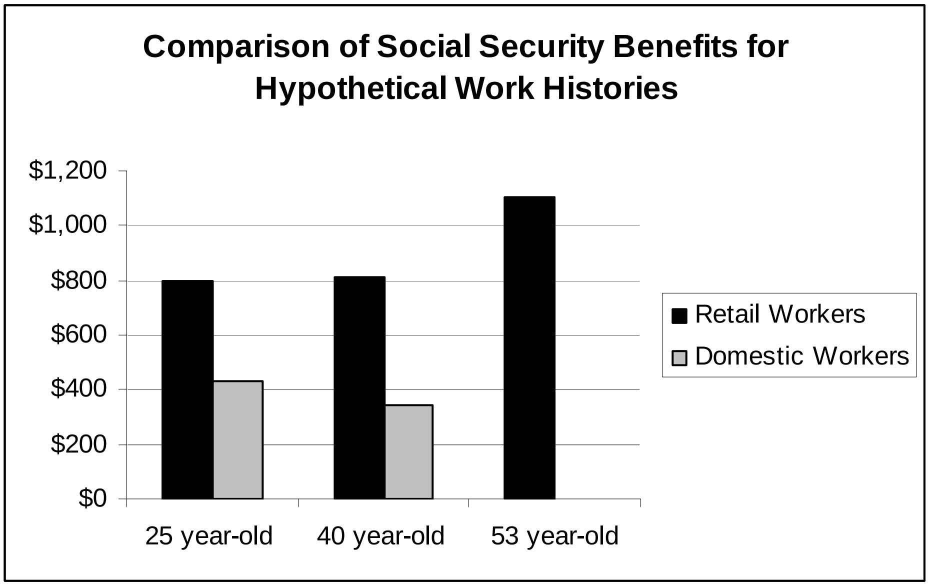

Figure 1: Comparison of Social Security Benefits of Hypothetical Work Histories

As mentioned earlier, Medicare eligibility is tied to Social Security work credits. An additional benefit of building up work credits is eligibility for Social Security Disability Insurance payments; the rules require that a person have worked for at least five of the last ten years. Unemployment benefits also depend on properly reported wages. These benefits are calculated on the basis of recent quarterly gross wages. Replacement rates and duration vary from state to state, usually reflecting that state's overall political stance towards labor. Table 2 presents a comparison three wage levels and the weekly and total values of unemployment insurance benefits, using the state of Virginia as an example. Virginia normally provides twenty-six weeks of unemployment benefits, which range from $54 to $378 per week.[12]

Table 2: Virginia State Unemployment Benefits, 2009

Annual Gross Salary	Weekly Gross Salary	Weekly Benefit	Weeks	Total Value of Benefits
$14,400	$200	$103	26	$2,678
$16,640	$320	$166	26	$4,316
$22,880	$440	$228	26	$5,928

Figures from Virginia Employment Commission, 2009

Ensuring eligibility for Social Security benefits is especially important for female retirees (see Table 3). Older women are more likely to live in poverty than are older men. The most recent CPS figures (released in 2008) show that the overall U.S. poverty rate is 12.5%.[13] For those over 65, the rate drops to 9.7%, indicating that for men and women overall, the elderly experience greater income security. However, while the male over-65 poverty rate is 6.6%, the female over-65 poverty rate is 12.0%. For Asian women, the overall poverty rate is 10.7%. This rises to 12.4% and 15.4% in the over-65 and over-75 population. For African-American women, the overall poverty rate is 26.5%. This also rises in the older age categories. In contrast, white, African-American, and Hispanic men all have reduced poverty rates as they get older. Although figures are not broken out by gender and race, the poverty rate for all those over 65 born outside the United States is 20.4 percent. Extrapolating from the information above, the female and of-color poverty rates for those born outside the United States are quite likely higher. Hence, those most likely to perform domestic labor are also in the greatest jeopardy of income insecurity in old age.

Table 3: Women's Disadvantage with Respect to Poverty and Age, 2009.

Race and Ethnicity	Women of All Ages	Women Over Age 65	Women Over Age 75
All	13.8%	12.0%	13.2%
African-American	26.5%	27.3%	29.2%
Hispanic	23.6%	20.0%	21.2%
White	11.6%	10.2%	11.6%
Asian	10.7%	12.4%	15.4%
Race and Ethnicity	**Men of All Ages**	**Men Over Age 65**	**Men Over Age 75**
All	11.1%	6.6%	6.7%
African-American	22.3%	16.8%	11.0%
Hispanic	19.6%	13.3%	13.6%
White	9.4%	5.4%	6.1%
Asian	9.7%	9.9%	12.0%

Figures from 2007 Current Population Survey's Annual Social and Economic Supplement

Finally, although there are significant benefits to being a taxpaying domestic worker, many if not most informally hired household workers prefer to be paid under the table, receiving higher upfront wages as a direct result. There are no statistics on the percentage of domestic workers preferring to work off the books. Simple preference in addition to unfamiliarity with the trade-off they are making certainly plays a role. However, employers of household labor bear final responsibility for their own tax evasion. Because they are less exposed to regulation and scrutiny than ordinary businesses, they often ignore their legal responsibilities. Domestic workers often have few other job choices. Domestic workers wanting coverage unfairly face a pool of prospective employers who quite often sidestep the payroll tax ordeal. The interview research in this dissertation confronts the puzzle of why they sidestep it. Are there motives beyond stinginess and laziness? Aren't employers affected by social norms of noncompliance? What about misguided altruism helped along by ignorance of tax and Social Security rules?

The Bureau of Labor Statistics' small summary of the nature and employment outlook for the private household industry calculates an average annual growth rate from 1996 to 2006 of 0.8%, with modest growth predicted for the next decade. The summary also states, "Government regulation of the workplace makes the use of household workers expensive, relative to hiring specialized firms." It might more plainly have said, "Government regulation of the household as a workplace makes hiring individuals and paying their payroll taxes expensive, relative to ignoring all labor laws and evading nanny taxes."

1.5 Official Labor Statistics on Household Employees in the U.S[14]

The Bureau of Labor Statistics (BLS) compiles the National Employment Matrix (NEM) from two establishment-based surveys, the Occupational Employment Statistics (OES) and the Current Employment Statistics (CES), as well as from the Current Population Survey (CPS), the Bureau of the Census' household-based survey.[15] Neither the OES nor the CES count household workers. Therefore, the household worker data must come entirely from CPS data, making the data itself no different from the data underlying the Household Data Annual Averages (HDAA) tables the BLS publishes. However, the NEM reports in much finer detail occupationally and does not round by thousands as does the HDAA.

By taking into account the overlaps and gaps between these data collection efforts, the constructors of the NEM aim to derive total employment. The NEM is based on the 2000 Standard Occupational Classification system and the 2002 North American Industry Classification System. The BLS and other government labor statisticians distinguish between an occupation, “a set of activities or tasks that employees are paid to perform” e.g., salesperson or driver industry, and an industry, “a group of establishments that produce similar products or provide similar services.” e.g., manufacturing or forestry.[16] The NEM is called a matrix because employment numbers for each of the 300 NAICS-listed industries are broken out by each of the 700 possible SOC-listed occupations, for a potential 210,000-cell matrix. The main purpose of the National Employment Matrix is to inform the BLS Occupational Outlook report. Of course, many cells are blank and some have fewer than fifty workers, in which case those numbers are not made public.

The NEM data were the most detailed aggregation of available sources of government data. The NEM allows us to examine employment in the industry known as Private Households, at the finest level of detail. This industry, number 814000, had a total of 888,868 workers in 2006, which represents 0.6% of the U.S. workforce. What can we learn from most recent NEM? For one thing, we can see the relative sizes of the occupations making up this industry. Although all five major occupational sectors are represented, the service sector is by far the largest at 96.31%. The second largest sector, at 1.61%, is production, transportation, and materials moving. Table 4 shows the distribution of workers among these five sectors.

Table 4: Major Occupational Sectors in the Private Household Workforce, 2006

Sector	Workers	Percentage
Private Household Industry - All Sectors	888,863	100.00%
Service Occupations	855,862	96.31%
Production, Transportation, and Material Moving Occupations	14,265	1.61%
Management, Professional, and Related Occupations	8,016	0.90%
Sales and Office Occupations	5,866	0.66%
Natural Resources, Construction, and Maintenance Occupations	5,059	0.57%

Compiled from Bureau of Labor Statistics' 2006 National Employment Matrix

Roughly half of the workers counted in the private household industry are maids, a third are child care workers, and an eighth are personal and home care aides. Table 5 shows worker counts for the four largest occupations in the private household industry. As we would expect, these are all service sector occupations.

Table 5: Occupations Representing at Least 1% of All Private Household Industry Workers, 2006

Occupations With At Least 1% of Workers	Number of Workers in Occupation	Percentage of Private Household Workforce
Maids and Housekeeping Cleaners	424,699	47.78%
Child Care Workers	271,101	30.49%
Personal and Home Care Aides	110,254	12.40%
Grounds Maintenance Workers	14,602	1.64%
Totals for These Occupations	820,656	92.33%

Compiled from Bureau of Labor Statistics' 2006 National Employment Matrix

There are many more occupations, but all the rest comprise less than 1% of the total. Table 6 shows the figures for fourteen of the other Private Household industry occupations listed in the most recent National Employment Matrix. These occupations include occupations commonly associated with household labor: nurses aides, chauffeurs, home health aides (as distinct from home care aides), and cooks. These occupations also include such professional occupations as accountant, teacher, and lawyer. Examining this table illustrates the diversity of household labor while reinforcing the main point: almost all household labor performs service occupations.

Table 6: Selected Occupations Representing Under 1% of Private Household Industry's Total Workforce, 2006

Occupations With Under 1% of Workers	Number of Workers in Occupation	Percentage of Private Household Workforce
Laborers and Material Movers, Hand	8,007	0.90%
Nursing Aides, Orderlies and Attendants	7,621	0.86%
Taxi Drivers and Chauffeurs	3,764	0.42%
Home Health Aides	3,268	0.37%
Cooks and Food Prep Workers	2,906	0.33%
Registered Nurses	1,832	0.21%
Painters and Paperhangers	1,650	0.19%
Licensed Practical and Licensed Vocational Nurses	1,355	0.15%
Nonfarm Animal Caretakers	1,192	0.13%
Food and Beverage Serving Workers	1,109	0.12%
Captains, Mates, and Pilots of Water Vessels	658	0.07%
Lawyers	415	0.05%
Teachers and Instructors	379	0.04%
Accountants and Auditors	113	0.01%
Totals for These Occupations	34,269	3.86%

Compiled from Bureau of Labor Statistics' 2006 National Employment Matrix

The figures above establish that professional jobs are a tiny fraction of the household workforce. Most individuals hired by households are performing traditionally female, difficult, often tedious work. This work, statistics indicate, is very likely to include one or more of the following: providing personal care to those who cannot do these things for themselves, doing a family’s laundry, dishes, and bathroom cleaning, and/or shouldering the exhausting, often round-the-clock responsibility for small children.

In sum, the service sector dwarfs the other four sectors, which comprise only 7.7% of the occupations performed in the Private Household industry. Four occupations account for 92.3% of the workers. In declining order, these are the occupations of maid, childcare worker, home or personal care aide, and grounds maintenance worker. Despite the fact that other interesting occupations are represented in the industry, such as nonfarm animal caretakers and pilots of water vessels, these figures plainly indicate that almost all household employees are doing low-status, poorly paid jobs. Although included in the media stereotype of staff within an affluent household, such workers as drivers, butlers, nurses and tutors each represent less than 1% of the total.

The NEM does not have either gender or racial composition data. When a specific industry such as Private Household, 814000, is broken down into specific occupations, such as those seen above, there is neither gender nor racial/ethnic composition data available. The 2000 Census is nearly ten years out of date but does provide this information at the six-digit (814000) industry level. The American Community Survey has gender composition information but not racial composition at the level of Private Industry. (All of these figures are national, as is the IRS data examined in Chapters 4 and 5. Analysis of the geographic concentration of domestic labor is beyond the scope of this dissertation.)

1.6 The Compliance Rate and the Odds of Being Caught

In 2001, the IRS collected $1.767 trillion dollars in taxes. According to their best estimates, which are based not only on ordinary audits but also on extensive research, this was close to 84% of what was owed.[17] They make this calculation based on sophisticated tabulations of the expected filing rates for most types of taxes.

It is important to explain the difference between the filing rate and the compliance rate. The *filing rate* refers to the percentage of all tax filers who file a certain form, such as the Schedule H. Filing rates for various specific types of taxes (capital gains, self-employment, e.g.) are calculated in relation to the overall number of tax returns filed. It is expressed in number of returns with that specific tax per 100,000 returns filed. The *compliance rate* is the percentage of taxpayers owing a certain kind of tax who actually file those taxes. Tax compliance rates are calculated by dividing the number of people who paid a certain tax with the number that receive that kind of income. In many instances of a specific tax, we know this with near certainty. Using third-party reporting records, the IRS can estimate, for example, the rate at which taxpayers comply with taxes on bank interest. Estimated compliance rates are developed by the IRS based on large, national programs involving auditing. Neither the Taxpayer Compliance Measurement Program, nor the Market Segment Specialization Program which replaced it in the 1990s, nor the National Research Program of recent years, has produced estimates of nanny tax compliance.. There are no published estimates of the household employment tax compliance rate, neither by the IRS, nor in academic tax studies.

The rate of nanny tax compliance remains a mystery. We know that any household employer paying more than $1600 to an employee in any year absolutely owes household employment taxes. Although we can know the numerator of this ratio with complete accuracy, we do not know how many U.S. households employ people, therefore, we cannot calculate the compliance rate. There is no way to determine how many households employ household help. The regular Census surveys, the more frequent American Community Surveys, and Bureau of Labor Statistics figures conflate household employees, independent contractors and those work for an agency.[18] Their figures are by occupation (childcare, housecleaning, home health care, etc.) rather than by form of employment. Furthermore, because so many undocumented workers perform domestic work, official figures significantly underestimate the number of individuals working for households.

The odds of a household employment tax evading taxpayer being audited are extremely low. To begin with, only 0.15% of all filed returns are audited every year.[19] However, this figure includes those who filed the simplest tax form, the 1040-EZ, which is not of as much interest to IRS auditors as the other two forms, 1040A (the 'short form') and 1040 (the 'long form'). The reason for this is that 1040-EZ users have very little opportunity to mislead the IRS given the few opportunities for deductions on that form. Those who file a 1040-EZ are not itemizing any deductions and – besides understating their income – are not able to fool the IRS any further, i.e., with false deductions. Therefore, a better estimate of nanny tax filers' audit probability is the audit rate for all 1040A's and 1040's. The IRS increases scrutiny as income rises. In 2003, the most recent year for which data were available, the IRS audited 0.09% of all 1040 and

1040A returns between $50,000 and $75,000; they audited 0.14% of such returns between $75,000 and $100,000, and 0.35% of these returns over $100,000. Not only are the audit rates low: they are declining. In 1992, the over-$100,000 audit rate was 2.9%, in 1995 it was 1.53%, in 2000 it was 0.47%, and in 2004, as noted above, it was 0.35%.[20] In considering the case of the evading household employer, we must add to the statistically low probability of being audited the empirical unlikelihood of an auditor finding out about an off-the-books employee while doing an audit. A cash-paid employee does not leave a paper trail for even an extensive audit.

The fact that an employee may have more than one household employer does not obviate the employer's liability to pay household employment taxes. That is, having more than one household employer does not automatically make that employee an "independent contractor" and thus exempt from the nanny tax. There is a common household employer misconception that their employee is actually an independent contractor and as such is responsible for both halves of the payroll tax. Someone who engages an independent contractor is only responsible for giving them a copy of the year-end summary of wages paid – a Form 1099 – that they file with the IRS. The employer files a 1099 to inform the IRS that wages have been paid to the independent contractor and signals that self-employment taxes are owed by the independent contractor. In other words, the employer of an independent contractor is paying them under the table unless they file a 1099 and give that employee a 1099 at year's end in lieu of a W-2 form. However, the employer is not responsible for paying any payroll taxes because the independent contractor is not their employee but rather a vendor or business owner. A person doing household work is an employee if the employer retained control over the work that was done and how the work would be done. The federal guideline from the Household Employers' Handbook is:

> You have a household employee if you hired someone to do household work and that worker is your employee. *The worker is your employee if you can control not only what work is done, but how it is done*….If only the worker can control how the work is done, the worker is not your employee but is self-employed (2008: 2) (Italics mine)

Under the heading "Who is an Independent Contractor?" The Virginia Employment Commission's Employer Handbook states:

> Some employers consider certain individuals who perform work for them as independent contractors, and not as employees. Under the Act, however, this may not be the case. Employment usually means service performed for remuneration or under any contract for hire – written, oral, expressed, or implied unless: (a) the individual has been and will continue to be free from control or direction over the performance of service under his/her contract, *and* (b) …the individual, in the performance of such service is, engaged in an independently established trade, occupation, profession, or business. 60.2-212 …The right of control includes not only the power to specify the result to be accomplished, but must include the power over the performance of such services. If the party for whom the work is to be done has the power to direct the means and methods by which the other does the work, an employer-employee relationship exists (2008: 2)

1.7 Summary of Chapters

Chapter 2 reviews the extensive literature on general tax compliance in order to place this first exploratory study of nanny tax compliance motives in economic context. No other kind of tax evasion is like this one – for example, one's evasion directly impacts another party. I also review recent literature on domestic workers and the slippery slope of having a private home function as a workplace. I focus on migrant workers from the Philippines as my sample of employees are thirty Filipina nannies and housekeepers. Chapter 3 describes my ethnographic approach and addresses some of the issues raised in studying such a sensitive topic. Chapter 4 uses the best available IRS data on over 200,000 nanny tax returns from 2006 to establish what kinds of households are paying the tax and examines the distributions of tax and wages amounts. The chapter also examines pre- and post-audit information on a large IRS sample of income tax filers, yielding the surprising fact that while the weighted sample indicates about $12 million of unpaid or underpaid nanny taxes, there were roughly $11 million of nanny tax paid that was not owed. I combine CPS and BLS data with the (ever-declining) nanny tax counts over the last ten years in order to estimate household payroll tax evasion rates in Chapter 5. Chapter 6 presents the employer interview research results followed by the employee interview results. Both sections of material are organized by themes which emerged during the interviews. Chapter 7 analyzes this material keeping the traditional tax compliance model in mind. I also present a force-field analytic way of examining compliance decisions which encompasses the conflicts between motives. Complexity, ignorance, irresponsibility and altruism, among other motives, emerge as important compliance drivers. Chapter 8 brings together the implications of interview results, ethnographic analysis, and what could be extracted from available IRS data. These conclusions suggest some policy recommendations to increase compliance by making it harder to evade this tax, making it easier for the honest and willing employer to pay the tax and to help the affected workers achieve the benefits of full employer payment of their Social Security taxes.

Notes

[1] This study uses the two terms nanny taxes and household payroll taxes interchangeably.

[2] Zoë Baird was the first person to be pilloried in the public arena for failing to pay nanny taxes. Investigations during her 1993 Senate confirmation hearings to be Clinton's Attorney General turned up this omission; the accusation was perceived by some as cynical posturing, but it ushered in a new era of compliance among the politically hopeful. Before this, it was probably the rare male candidate who happened to pay his nanny taxes, so it was especially bitter for feminists to see this happen. In California, a gubernatorial candidate and a Senate candidate were soon after forced to end their races. Most recently, job candidates in the Obama administration have been plagued with unpaid household employment taxes.

[3] Medicare Part B (Medical Insurance) works differently. Everyone is eligible regardless of work history and pays a monthly premium ranging from $96.40 to $238.40, depending on income.

[4] As detailed in Appendix 5, due to sample size limitations, neither ACS nor CPS data on racial composition is available at the level of detailed industry, making 2000 Census figures the only source for this information.

[5] A schedule is a special tax form that reports a certain type of income, deduction, credit, or tax liability. Examples include Schedule B, Itemized Deductions, and Schedule SE, Self-Employment Tax. These schedules accompany a taxpayer's Form 1040.

[6] Time preference is a subjective concept that varies with the individual. It is distinct from the objective concept of present discounted value in which only the prevailing interest rate and length of time delay determine the value to the individual.

[7] IRS. 2008. Publication 17.

[8] Ibid.

[9] The hypothetical work histories are not related to the research results. The figures assume full-time, year-round work. A person earning the Federal minimum hourly wage, $6.55 in 2009, working full-time, year-round, earns $13,624 yearly; an hourly wage of $8.00 earns $16,640; an hourly wage of $11.00 earns $22,880.

[10] Amounts are calculated on the SSA online benefit calculator (long version); see Appendix 1. Figures are rounded to whole dollars.

[11] Of course, those familiar with the OASDI and SSI programs will remark that Supplemental Security Income provides an income floor for those whose Social Security earnings are too low to qualify them for retirement benefits. In 2009, the minimum benefit is $674.

[12] www.vec.virginia.gov/vecportal/unins/handbook.cfm

[13] www.census.gov. Latest figures available are for 2005, weighting updated in 2006.

[14] See Chapter 4A, Estimating Household Employment Payroll Tax Evasion in the U.S., 1996 – 2006. for additional information on these statistics.

[15] Its full title is "National Employment Matrix, employment by industry, occupation, and percent distribution, 2006 and projected 2016." It is a biennial publication.

[16] www.bls.gov

[17] Mazur and Plumley (2008).

[18] www.census.gov.

[19] www.trac.syr.edu.

[20] www.trac.syr.edu.

CHAPTER 2

REVIEW OF LITERATURE ON HOUSEHOLD EMPLOYMENT AND TAX COMPLIANCE

2.1 Introduction

A review of the literature on domestic employment and the literature on tax compliance demonstrates the need for a study at the intersection of these two subfields. I review scholarship on paid domestic labor, which reflects the increasing volume of transnational labor flows. I focus on the uniquely vulnerable position of the household employee and the peculiar features of the employee-employer relationship when situated in a private household. I also visit the issue of American welfare state development and its centerpiece, the Social Security system, in terms of valuing paid domestic work on a par with other occupations. Tax compliance studies are almost exclusively quantitative and focus on the standard elements of taxpayer income, tax and penalty size, and audit risk. I present an overview of the basic model and its history to provide context for my proposed extensions. I also touch on selected aspects of behavioral economics, which concern motivations for household allocation decisions.

2.2 Migrant Domestic Workers

Much has been written about migrant domestic workers and their vulnerability to mistreatment. Studies of the private household employment of migrants focus on the problems of these workers (Hondagneu-Sotelo, 1994, 2003); Wrigley, 1999; Hagan, 1998). Hondagneu-Sotelo immersed herself in the lives and the organizing efforts of mainly Latina domestic workers in the Los Angeles area, performed detailed interviews with them and with employers as well. Her intensive ethnography paints a picture of the suffering and the dignity of the nannies and housekeepers, the beginnings of partially successful organizing efforts among them, and of the obtuseness, insensitivity, condescension, and denial of their employers. She points to the need for further research on employers.

Private employment relationships, even compared with others in the informal sector, are especially unequal and emotionally fraught. Wrigley points to the combination of "daily household intimacy with enormous class differences between employers and employees" (1999, p.169) as causes. Nannies' payroll taxes are paid by amateurs who lack assistance or oversight because the home is a private, unregulated workspace. The risks of the private employment relationship include being cheated out of already low pay, privacy invasion, extreme workloads, and extreme hours. Private household employment for the care of children often ends when the child reaches school age. In some situations, parents may employ a nanny until the children are grown. Nevertheless at the end of every job the nanny not only must find new employment but also carries no benefits to the new position in terms of wages or other favorable benefits of the old job (Wrigley, 1999). Migrant domestic workers are especially vulnerable to physical and sexual abuse in countries such as Hong Kong and Canada that allow for specialized contract workers who have few rights and are especially vulnerable to their employers. They seldom enjoy assistance from the government of their home countries if things go badly for them abroad. (Gibson, et al., 2001; Parreñas, 2000, 2001a; Pratt, 2004; Constable, 1997). There are also struggles over citizenship rights, both in terms of permanent second-class citizen status and when an attractive opportunity to gain citizenship is tied as a carrot to successful completion of demanding contracts (Stasiulis and Bakan, 1997).

One important result researchers have found when investigating the household employer-employee relationship is that women usually hire, manage, and fire the employee because she is framed as replacing the woman rather the man. Hondagneu-Sotelo (1994) writes that the personalization of the relationship between the private employer and employee is very stressful for the worker as well as inherently oppressive. In addition, in interviews, nannies and housekeepers report again and again that they know from their own and others' hard-won experience not to transact with men in the household. They face problems ranging from unwanted sexual attention to assault from the men, and sexual jealousy from the women (Constable, 1997; Wrigley, 1999; Pratt, 2004; Parreñas, 2000). Pratt's (2004) study of Filipina nannies in Vancouver found "considerable psychic investment in the stereotyping of nannies". She hypothesizes that this devaluation comes from, among others things, maternal guilt.

Meagher (1997) and Mendez (1998) each studied household service agencies, the former in Australia and the latter in the United States. Meagher interviewed housecleaners who were successfully improving the stigmatized status of this type of labor by proactively inserting notions of skill and professionalism into the employer-employee relationship. Often it was men who were accomplishing this, and after "professionalizing" they would become brokers (Merry Maids, e.g.) who employed women as cleaners and reaped a profit. Mendez studied such household service agencies to determine whether exploitation of housecleaners decreased when the informal sector employer/employee relationship was replaced by a bureaucratic one involving a profit-taking franchisee. Her results were mixed; in fact, some reported trying to mitigate the financial downside of working for a cleaning company by trying to connect personally with the homeowner.

Studies that focus on the globalization of this labor force document the suffering of the mothers estranged from their children and the suffering of their children who thereby become more vulnerable to mistreatment at home (Ehrenreich and Hochschild, 2002; Pratt, 1997a, 1997b, 2004; Parreñas, 2000, 2005). Parreñas, who interviewed Filipina domestic workers in Rome and in Los Angeles, draws attention to both the racial and the international division of labor. That is to say, she discusses and documents the phenomenon of women of color disproportionately performing housecleaning and child care work the world over. A similar disproportion exists by county, in that migrants from poorer countries disproportionately perform low-paid work of this kind in the employ of citizens in richer countries. Ehrenreich and Hochschild (2002) write about the transnational flow of caring labor caused partly by First World women working in greater numbers, which creates a caring labor deficit in their homes, which then causes a caring labor deficit in the Third World countries. Ehrenreich's term "global chain of care" captures the irony and misfortune of third-world children going without mothering so that their mothers can earn money providing first-world children with high-quality, individual child care. As a direct result, the workers' third-world children receive scanty, poorly-paid child-care or none at all. Although migrant domestic workers get away from male oppression at home and can make good money thus giving their children a better life, they miss their children, and their children miss out on their protection and nurturing.

From a feminist standpoint, gender inequality is evident in this situation. The availability of third-world women's labor enables some affluent first-world men to continue doing less than their fair share of housework and child care; gender norms about these responsibilities go unchallenged. From a class standpoint, privilege operates to enable some first-world women to 'buy out' of some of their gender oppression by hiring such workers (Hondagneu-Sotelo, 1994; Wrigley, 1999). Wrigley taped 155 interviews with both employers and employees in San Francisco in order to explore class differences between the pairs of women. She argues that in the United States women are not making a unified demand for universal daycare precisely because of the existence of this migrant labor pool providing private child-care to those who can afford it.

Some of the literature focuses on networks and resistance. Anderson (2000) gives a detailed account of the horrors of being a migrant domestic worker in the UK at the mercy of foreign residents unbound by even the poor protections afforded the employees of UK citizens. She also describes the successful organizing in the 1980s of Filipinas into a mutual help organization called Waling Waling and its lobbying for passage of employment protection legislation. Another organization, Kalayaan, grew out of Waling Waling, targeted specifically on helping undocumented workers. Anderson's analysis is class-oriented and focuses on the commodification of domestic work; she is part of the third wave of feminist social science analysis referred to by anthropologist Aggarwal (2000) among others, the wave that asserts the parity of class and race with gender in analyzing the struggles of Third World women.[1]

Migrant social networks generally provide social, emotional and resource support for those who come to host countries for work. Hondagneu-Sotelo's (1994) study of Chicana immigrant domestic workers demonstrates ways in which their social network was a significant resource to them as they attempted to solve problems with employers. On the other hand, Hagan's (1998) study of Mayan immigrants demonstrated that a network is only as helpful as its economic and social resources; that immigrants sometimes exploit one another based on their length of time in the host country; that gender matters hugely in the ability of a network to help its members. For example, men working in a chain of stores were able to obtain jobs in these stores for one another; women, however, were of little use to one another, being isolated in household-based employment with no structure to infiltrate for the benefit of the network.

Those who have extensively interviewed Filipina domestic workers have identified many forms of personal and collective resistance. Worldwide, the Tagalog-language magazines Tinig Pilipino (Filipino Voice) and Diwaliwan provide a forum for discussions of the experience of overseas work – the difficulty and loneliness as well as the mutual support and self-assertion (Parreñas, 2001b). A remarkable study (Constable, 1997) of Filipina housekeepers and nannies in Hong Kong reveals their different forms of resistance in the face of daunting isolation from the more affluent expatriate Filipina community and hostility and sexual jealousy from female Chinese employers. These strategies include 'performative' large, Sunday gatherings in a Hong Kong public square where they dress up and groom one another for relief from forced de-feminization in appearance by employers during the week (anecdotes of involuntary haircuts), some even becoming “T-birds” or ‘temporary lesbians.’ This defuses their sexual threat to the employer, but increases their rejection by the established Filipino community in Hong Kong.

Pratt (2004) describes strong and successful political organizing in Vancouver. The Philippine Women’s Centre there found that Filipina domestic workers have a tendency to identify with the employer’s problems, suppress their own, avoid confrontation, frame themselves as “lucky visa holders” or “one of the family”. They began to work directly on these issues with consciousness-raising, encouragement and role-playing. Campaigns have addressed minimum wage changes and worker protection laws.

There is also evidence of political organizing in Hong Kong. Gibson, et al., (2001) partially refute the globalization victim stereotype of the overseas Filipinas by cataloguing resistance and positive self-determined economic action there. Three domestic worker unions exist in Hong Kong, including the nation-specific Filipino Migrant Workers Union. The Asian Migrant Centre’s ‘Reintegration Programme’ sets up savings groups help the women discipline themselves to save more (or allow them to set limits with the bottomless demands of wider and wider rings of dependents), then pool the capital to invest in assets and enterprises at home.

There is a lack of research on the financial problem posed by employers’ disregard of the requirement to pay Social Security and Medicare taxes for their employees. Although there are more immediate problems facing these workers, in the end, they will face the standard problem of elderly female poverty, perhaps exacerbated by race and nationality. With the single exception of glancing treatment by Hondagneu-

Sotelo (2001), compliance with nanny taxes is a neglected topic within the literature on transnational care workers. Her concern with these taxes is limited to the issue of the extent to which a former employer shares information on treatment of a specific employee with the new employer. In fact, focusing on the payoff for domestic workers of getting their payroll taxes paid by employers could contribute to organizing efforts. In addition, such a focus might tie in well with anti-poverty campaigns to encourage and empower low-income workers to file (and thus benefit from) a tax return.

2.3 The American Welfare State

In a way, household employment payroll taxes are a microcosm of the classic contract-charity duality described by Fraser and Gordon in their classic 1992 article, “Contract vs. Charity: Why Is There No Social Citizenship in the United States?” In analyzing why the US is such an under-developed welfare state among industrialized countries, Fraser and Gordon describe an American insistence on controlling *who* gets the charity so that means tests and worthiness tests can be applied. They point out that historically the U.S. has dealt in private charity rather than in citizenship-based entitlements of the sort that T. H. Marshall argued for in his famous essay, “Citizenship and Social Class (1950).”[2] Nanny tax evasion may be an example of Americans’ resistance to paying into a large, impartial system of public provision as they are supposed to as household employers. Instead, those who are moved to be generous are often generous in a personal way – and in preference to paying nanny taxes. Private charity versus public provision is a social welfare theoretical framework into which the noncompliant and compliant household employers fall. Marmor, Mashaw, and Harvey

(1990) characterize the American welfare state as "misunderstood." The title of Jansson's (2005) social welfare text, "The Reluctant Welfare State," captures this conflict between the system of social provision we have built for ourselves and our reluctance to commit fully to funding it.

2.4 Tax Compliance

Tax compliance scholars have not touched on the topic of household employment taxes, with the one exception of Bloomquist and An (2006), who focused on geographic variation in the incidence of household employment payroll tax compliance. My research focuses on who is complying with this tax law, rather than where they are located. Recent tax compliance research in economics and related fields has investigated a wide array of possible factors in the compliance decision. Major themes in this extensive literature include the role of personal ethics and social norms, and the role of individual risk analysis. I will begin with a review of the research in related fields before covering the pure economic models.

Personal ethics and social norms are important determinants of compliance. In some studies, ethical position topped both audit probability and penalty level as a decisive factor (Keller, 1997). Hardin (2000), a legal ethicist studying taxation, holds that the widespread neglect of nanny taxes among otherwise careful and image-conscious people belies the idea of a generalized norm regarding tax compliance. Phillips (1999), however, in experimental work, found strong evidence for the role of social consensus guiding compliance choices. Those under the age of 65 are less compliant than those over that age (Friedland, Maital, and Rutenberg, 1978). Men are less tax-compliant than women (Baldry, 1987). Filing costs – in both time and energy – are a significant obstacle facing even the most ethical. Research has evaluated the role of the burden of filing; there is evidence for complexity as a factor in noncompliance (Mahfar, 1994; Blackwell, 2000) as well as evidence against (Newell, 1995).

The power of social norms and of social networks is clear in the results of Plumley (1996). This study found that for each additional person audited at the margin, up to eleven additional taxpayers are deterred from evading through a ripple effect. Plumley’s study also found a significant role for tax preparation assistance and IRS communications in reducing evasion.

Hondagneu-Sotelo’s (2001) study of employers makes little mention of employment taxes, but does include this telling anecdote. A female employer’s attorney husband was told point-blank by a judge at a dinner party to file nanny taxes: “[T]hat was a conversation between Barry and him. So I didn’t really have anything to do with it.” In other words, the employer only began to file nanny taxes at the strong suggestion of a judge in a social setting. A nanny employment agency owner’s memoir also supports my contention that decisions about nanny taxes reflect many influences. For example, social norms experienced overseas may deter tax compliance. Barbara Klein (2005), the owner of a Washington nanny agency, writes, “Not every client wants to pay fair wages, especially Foreign Service, World Bank, and International Monetary Fund employees who’ve lived overseas. Clients who had ten (count’em) docile servants do everything for them in Thailand are shocked to learn that one Washington nanny costs what they paid their entire staff in Bangkok” (2005:20). Some employers who have experienced the labor markets in such countries will have resistance to wage levels in the United States. By extension, they likely have resistance to the time and effort required to file payroll taxes as well as the additional money costs they impose.

Spouses may well disagree about tax compliance. Who gets to decide and what factors influence this? There may be a disagreement between the male and the female employer regarding the compliance decision. Perhaps women are more risk-averse than men making them more likely to file. There is a good deal of literature supporting the claim that women are more risk-averse.[3] To hypothesize based on the work of Lundberg and Pollak (1993) and Pollak (2005), the financial power differential between the spouses may play a role. These authors, among others, attack theoretically (with subsequent empirical support) the idea that households make decisions without regard to the likely imbalance of earning power between the spouses. This supports looking for possible gender connections to tax compliance behavior. Perhaps women are more likely to empathize with the need for income security in old age due to women's greater life expectancy and lower average economic well-being. This might predispose them towards compliance, in comparison with their husbands. On the other hand, since many wives have responsibility for everything regarding the household help, including hiring, managing, firing, paying and keeping salary records, a woman might be less motivated than her husband to go to the effort of doing it. There is no way of investigating these issues with tax return data alone.

Some studies show that individuals adapt their current year tax compliance behavior to the results they received from past filings, for example an audit or a successful evasion of tax (Spicer and Hero, 1984; Webley, 1987). On the other hand, Long and Schwartz (1987) and Engel and Hines (1994) found evidence to the contrary.

Several studies have investigated the role of different types and even the tone of a communication from the IRS. Forest (2000) found that it made a difference whether the taxpayer received (prior to deciding whether to cheat) a threatening communication, a genial, persuasive communication or no communication at all. An experimental research study investigated the effects of two types of IRS communications on taxpayers: “communication of legal sanctions” vs. “an appeal to conscience” with either type written positively or negatively (Hasseldine, 1997). Although both types were deemed effective, the second was more effective overall. Interestingly, Hasseldine found differences by gender in response to positive or negative tone. There is also evidence (Mahfar, 1994; Plumley, 1996) that when specific types of taxpayers are targeted by IRS communications, compliance increases.

Another important factor is detection probability. One especially important detection method the IRS possesses is information reporting: the practice of third-party delivery to the IRS of data on taxes owed, e.g., the W-2 wage statement forms submitted by employers or Form-1099 interest income statements submitted by banks. This information matching deters underreporting of income. Long and Swingden (1990) found that the introduction of information reporting on specific line items substantially reduced evasion. Employees report 98.5 percent of their income when that income is separately reported by employers to the IRS on W-2 Forms (IRS, 2005). In fact, recent IRS research found a 99% compliance rate for amounts subject to substantial information reporting and withholding; a 95% compliance rate for amounts subject to substantial information reporting alone; a 91% rate for amounts subject to some information reporting; and a 46% compliance rate for amounts subject to little or no information reporting (Bloomquist, Plumley, and Toder, 2004; Mazur and Plumley, 2007). My research concerns only payroll taxes, not income taxes. However, since there is no third-party information reporting in the case of nanny taxes, I hypothesize that the household payroll tax is solidly in this category of taxes at highest risk for tax evasion. The IRS has no mechanism for learning through a third party that some tax is owed; employers in this study appeared to respond to the lack of oversight with the evasion predicted by the accountability-spectrum categories above.

Clearly individuals – and corporations – weigh numerous factors when evaluating how risky would it be to practice tax evasion. Some of the factors influencing the decision in a given year include: whether or not they expect a refund, whether or not they were audited last year, whether someone they know was audited last year, and whether the IRS has contacted them recently. Kahneman and Tversky (1979) describe individuals' non-rational choices under uncertainty using prospect theory. Prospect theory predicts what level of risk individuals are comfortable with as they confront various future scenarios. The scenarios range from prospective gains to prospective losses. Individuals will choose behaviors or make choices that lie along a spectrum from risk avoidance (e.g., not investing in the stock market) to risk seeking. The theory holds that as a scenario moves from a prospective gain to prospective loss, individuals become more and more likely to take a risk. For example, prospect theory suggests that those who owe money are more likely to cheat than those who are due a refund. That is, the loss of money they face influences the riskiness of their behavior whereas someone getting a tax refund is predisposed by the existence of that prospective gain to choose less risky behavior, that is they are less likely to evade any portion of their taxes. This is clearly not a rational calculation - the tax being a liability or refund simply alters the person's appetite for risk, There is much empirical support for this theory (Chang, 1984; Copeland, 1995; Dusenbury, 1989). This implies that household employers probably evade more than the rest of the population because regardless of their own tax liability they face the 7.4 percent federal payroll tax amount on a year's worth of wages paid.[4]

I next turn to the specific economic literature addressing tax compliance. Early important research (Allingham and Sandmo, 1972; Srinivasan, 1973) modeled tax evasion as a risky asset in a household's portfolio, with the results of maximizing the expected utility function depending heavily on the risk of detection, the tax rate, the penalty rate and income. This model applied Becker's (1968) economics of crime model to the decision facing the taxpayer. Becker's model posited three factors determining an individual's propensity to commit a specified criminal act: the probability of detection, the penalty incurred if caught, and the individual's income level. Applied to the taxpayer, it was refined as follows: the probability of detection in an audit, the penalty rate, the tax rate, and the level of income. Pencavel (1979) and Cowell (1981) improved the realism of the simple model by assuming that labor supply was endogenous, that is, entered the model as a factor itself.

Elegant and tractable though they might have been, these early, pre-game theoretic models suffered from indeterminacy, that is, empirical testing of them failed to produce significant results and changes in one variable could not conclusively predict changes in others (Andreoni, 1998). This failure is understandable given how few aspects of the tax decision problem they took into account.

Significant problems remain for economists trying to model noncompliance. For example, variables that initially seem to be determinants of noncompliance often turn out to be proxies for such allowable deductions as those based on age or on mortgages (Andreoni, et al., 1998). In addition, the inability of the models to provide either theoretically or empirically robust predictions is notable. For example, Clotfelter (1983), among others, found that the elasticity of tax evasion rises with the marginal tax rate for nine out of ten income classes, while Feldstein (1991) found that it falls. One difference between income tax and payroll tax is that income tax rises with income, all else equal, whereas the nanny tax itself is not driven by the employer's income at all; nanny taxes are calculated on the total wages paid. Therefore, the employer faces a lump-sum tax payment rather than a proportional tax, providing one more reason that nanny tax compliance requires a specialized model.

The principal-agent game-theoretic models such as those developed by Reinganum and Wilde (1985) only worked well when several unrealistic assumptions were imposed, for example, that the IRS has a simple, published formula to determine whom it will audit. Reinganum and Wilde (1985, 1986) and Graetz, et al., (1986) built several sequential equilibrium models of general tax evasion that take into account the impossibility of a taxpayer knowing the audit rate they face. The IRS does change, and does not publicize, the frequency with which it audits certain types of returns: for example, S corporations, business payroll taxpayers, etc. To date, though, the IRS has never made household employer payroll tax an audit focus, which is to say that there is no established nanny tax "audit rate" that could be distinguished (and therefore could drive compliance) from the ordinary individual income taxpayer audit rate.

How do people learn about detection probability and audit risk? Often it is through acquaintances, or more broadly, through perceiving social norms. We know that it is not rational to comply with tax laws. The probability of detection is too low to impel rational compliance. Yet there is an overall social norm of tax paying in the U.S. Computational social scientists have built interesting models of tax compliance that seek to transcend analysis of the individual in a vacuum. They aim to capture the effects of social networks on the compliance behavior by using linked networks of agents who are capable of learning from one another and passing on information about such things as audit experiences and penalty levels. As individuals draw lessons not just from their own experience but also that of others, it follows that a low detection rate should have a ripple effect among the acquaintances of successful evaders Recent multi-agent based simulation research on social networks has shown that when individuals are in networks that are smaller, it takes longer for news to travel, but that there is still a point at which news will begin to travel effectively (Bloomquist, 2004, 2006; Axtell, Johnson and Korobow, 2008).

The work of Dynarski and Scott-Clayton (2007) on financial aid policy reform has relevance for this study. They argue the current application process is flawed in ways that skew uptake of student aid away from the intended targets. The central flaw is complexity, which then favors those culturally equipped to navigate the long and demanding application form. Disadvantaged by this are those whose social cultures and norms have not prepared them to do battle with such a process, one that is initially intimidating and also requires a student to have completed parental tax forms in hand before beginning. These factors caused a surprising amount of failure to complete the form. Analogously, I hypothesize that despite the ultimate feasibility of nanny tax compliance, many ordinarily tax compliant people are ultimately defeated by the challenge.

Noted psychologist Lawrence Kohlberg (1969) proposed three stages of moral development, based on a progression from concern with punishment to concern with social approval to concern only with one's own core values. This framework provides a simple way to categorize the diverse compliance determinants examined in this study. Kohlberg's work has been applied to economic decisions, with feminist updating to remove the gender bias critiqued by Gilligan (1982), which demoted compassion-based decisions to a level lower than decisions that were based on principles of universal fairness rather than on specific-other-based emotional responses. A conflict-based model, which privileges the role of altruism, is needed for the analysis of why some people pay nanny taxes and some do not. The household is a personal space and one whose employees and their management are ordinarily left in the hands of the female partner. A recent experimental economics study by Kamas, Preston and Baum (2008) demonstrated women's greater propensity for altruistic decision-making when compared with men. Although their work focuses on charitable giving, I would argue that it has implications for a tax decision that stands to benefit another person – philanthropy on a micro scale.

Feminist economists have critiqued the methodological individualism and androcentric bias of neoclassical model building in general (Ferber and Nelson, 1993; England, 1993; Folbre 1993.). It is to be expected that the general neoclassical model of tax compliance might turn out to be insufficient when asked to account for the probability that a taxpayer will pay a tax that affects the good of another human being. In *The Invisible Heart* (2001), Folbre traces the intellectual history of how, in a self-interest-based free market, women's supposedly natural altruism was the saving grace. As the female complement to male self-interest, it would motivate caregiving, keep the household going and temper the market's effects on men. She argues against a necessary sequestering of altruistic behavior within the household and assignment of altruistic responsibilities only to women. Since Becker (1981), economists have spoken of a role for altruistic choices on the part of a head-of-household, which can explain away gender-based power imbalances in consumption decisions; some have criticized the economics profession for allowing Becker's formulation of household dynamics to stand unchallenged for so long (Pollak, 2004). My study of household payroll taxes raises the question of whether actors within a household are motivated by altruism towards a non-family member. Perhaps the fact that the decision is made from within the context of the household alters that decision. Finally, and most closely connected to my topic, is a recent study "Geographic Variation in Schedule H Filing Rates: Why Should Location Influence the Decision to Report Nanny Taxes?" (Bloomquist and An, 2006) which is the very first research to make use of IRS data on household employer tax returns. For Bloomquist and An, the Schedule H filing rate formed the basis of comparison between geographical units as they explored regional differences (see Chapter 1 for an explanation of the filing rate as opposed to the compliance rate).

The Bloomquist and An study did not find any variables beyond income that explained the geographic variation in the household employment tax filing rate. Their interpretation: "This is a clear indication that the recent decline in Schedule H filing is linked to a shift away from the employment of household workers by middle and upper-middle income taxpayers. However, because the data also show filing rates have decreased for all income groups, we cannot rule out the possibility that evasion is increasing, possibly in relation to the steady influx of undocumented workers entering the U.S. (2006: 16)." The size of an undocumented worker population in a given area was not a variable used in their study. Certainly, a study of geographic variation over time (Bloomquist and An studied 2006 data on all fifty states) would be able to detect the effect of a trend towards undocumented employees in such areas as Texas, California, Florida and New York on the number of Schedule H's filed.

Their study found that DC, Maryland and Virginia taken together have three times the national average of 161 per 100,000 returns, with DC standing alone having a rate six times higher. Furthermore, New Jersey and Long Island have below-expected filing rates while, as mentioned above, certain small Southern cities have rates higher-than-expected. (The expected filing rate is based upon per capita income for the area.) Bloomquist and An conclude that government employment, the prospect of future high-profile government jobs, and a higher-than-average legal immigrant population explain the higher filing rate in the DC area. They hypothesize that "unique historical and cultural factors" explain the higher filing rate in the certain pockets of the South. However, they do not advance an explanation for the lower-than-expected rate in the New York City area.

My research builds on their work by extending analysis to specific tax information contained in the data and more vigorously investigating the profile of a compliant household payroll taxpayer. In contrast to Bloomquist and An, who essentially asked why the filing rate varies regionally, my research aims to discover what makes an employer decide to file or not file. In other words, what characterizes compliant as opposed to noncompliant employers? The question of what drives the aggregate filing rate over time is an issue for a separate study. I was not able to obtain individual-level data with which to test the importance of demographic and income variables. However, as will be discussed later (in Chapter 4), I was able to obtain population data on nanny tax returns as well as excerpts from a dataset on audited taxpayers, some of whom were household employers. I was also able to address my research questions at length in sixty personal interviews. The next chapter describes the methodology used the interview research.

Notes

[1] Second-wave feminist scholars added race as an equally important consideration; third-wave feminists make a case for including class and sexual orientation as no less important than gender in analyzing the oppression of women worldwide.

[2] Fraser and Gordon's 'contract vs. charity' framework is a way of comparing social welfare provision on the dimension of the rationale for why people deserve the benefits they receive. In some countries, notably England and some European and Scandinavian countries, government assistance has historically been the entitlement of each citizen. In contrast, the United States has had a tradition of private sector financial support of those in need, with public sector financial assistance remaining both residual (as opposed to universal) and means-tested (Skocpol, 1990; 1992). Public support is not ordinarily an entitlement but means-tested. (Compare child care in France and the U.S., for example.) Although our provision of Social Security benefits is an entitlement, it is tied to work history and is unique among transfer payments for being universal. I hypothesize that this uniqueness of Social Security among American social programs contributes to employer resistance to supporting the Social Security system through their mandated employer contribution amounts. Many Americans, especially younger ones, seem to feel that they themselves will not need to rely on Social Security – they will succeed in building up their personal wealth so that Social Security is actually the safety net for other people, not them. Therefore, support for that system is not as widespread among younger ages groups as it is among people who are closer in time and in economic necessity to relying on those benefits. I hypothesize that these unique features of the American welfare system contribute to employer reluctance and resistance to participating in their designated role as half-contributors to the public retirement pension system.

[3] Palsson (1996), Jianakoplos and Bernasek (1998), and Sundén and Surette (1998) exemplify this literature, which finds a gender-based difference, although Bajtelsmit and Jiankoplos (2000) found the gap narrowing with time. On the other hand, two recent empirical studies, Hibbert (2009) and Hartell (2007), found no gender-based difference in risk-aversion. In the first, an examination of financial investment decisionmaking found no role for gender in explaining levels of risk-aversion. The second study took advantage of a set of pension investment choices presented to the entire Swedish population simultaneously to obviate questions of sample representativeness and likewise found no evidence of greater female risk-aversion.

[4] This is in addition to other non-federal tax amounts varying by state. Furthermore, because they are liable for both the employer and employee contribution, unless the employer has properly withheld 7.4% of each paycheck for the employee contribution, they effectively pay twice that amount.

CHAPTER 3

METHODOLOGY FOR INTERVIEW RESEARCH

This brief chapter provides information on the qualitative methodology underlying the study. In the first part of the chapter I discuss the value of a qualitative approach to the study of household employment taxation. I then describe how I handled recruiting, interviewing, and confidentiality on the sensitive topic of tax evasion. Finally, I explain my plan of analysis and acknowledge several limitations of the study.

3.1 The Case for Using Qualitative Methods in Tax Compliance Research

Qualitative methods are especially suited for complex topics involving personal interactions and unknown factors. Studying household employer payroll tax compliance requires studying relationships and interactions between individuals. It requires studying the relations between employer and employee as well as relations within their own social networks. For example, among other topics, the interviews focused on how employers perceive the influences of their peers and of their employees on their tax decisions. The interviews also focused on an employee peer-network, with its shared suffering and information exchanges.

The complexity of the topic also promotes a qualitative approach. Tax compliance is not an all-or-nothing proposition. True, in any given year, a household either files or does not. However, employers may underreport the wages they pay. They may pay initially then give up the practice; the reverse may be true. Interview research illuminated a complicated tax process. Qualitative methodology turns up the unexpected and the unimagined. By definition, quantitative research has preconceived axes along which it wishes to make its observations. Qualitative research does not just count and measure, or fill in blanks with missing pieces; it provides a holistic picture of a phenomenon. A simple survey collecting demographic data – as opposed to in-depth interviews - would fail to generate much new or useful information. Ethnography draws strength from the fact that respondents are given an opportunity to enlighten the researcher with their own, unprompted ideas. Jaynes (1998) articulately puts the argument for qualitative research into economic terms. Research that allows a respondent to share their perspective freely, without being prompted, led or influenced by pre-constructed questions on a survey, to express their point of view in an unstructured way "in effect asks: what are the arguments of the agent's preference field?" (1998: 357). Open-ended research allows us, according to Jaynes, to learn "why and how decisions are made in terms respectful to the decision-maker's perspective (1998: 358)". The problem with surveys is that they are usually based on theory, and this means that questions are unlikely to get at the participants' own perspective on the choices they made.

Other economists have also pursued their research questions with ethnographic methods (Holland and Sutinen, 2000; Jaynes, 1998; Berik, 1996). An example that closely parallels my project is Holland and Sutinen's (2000) research on fishing boat skippers in New England, who were consistently making decisions about where to fish that were at odds with the standard economic model of firm profit-maximizing behavior. These authors used in-depth ethnographic work with the boat captains, discovered what motivated their seemingly irrational behavior, and successfully verified their ethnographic results with quantitative data on boat movements.

3.2 Ethnographic Research

Ethnography is a collection of ways of gathering information including observation and interviewing; these methods range from structured to unstructured and from formal to casual. Ethnographers have developed effective ways of questioning people using gradations of focus and techniques to encourage respondents to be as comfortable and as forthcoming as possible (Strauss and Corbin, 1998; Spradley, 1979). One of the best examples of ethnographic research is the work of sociologist Kathryn Edin, who has used extensive ethnographic research methods to investigate important social policy questions involving poor families. Alternatives to traditional ethnography emphasize increased concern about the influence of the researcher on the results, the effect of the research on participants, including the issue of power relations between the researcher and the researched, and interest in the personal, political, or material benefit to study participants (D. Wolf, 1996; M. Wolf, 1996; Aggarwal, 2000).

3.3 Recruitment of Participants

The size of this sample, sixty individuals (thirty nannies and thirty employers) is in line with similar studies discussed in the literature review. I recruited thirty of each because I was concerned about attrition and wanted to ensure that I had a minimum of twenty-five participants of each kind. Fortunately, none dropped out of the study once they were enrolled, although several initial contacts changed their minds about participating after the first contact.

I conducted sixty extensive interviews in an affluent Washington, DC, neighborhood. Thirty were conducted with individuals who employ someone to do work in their home, that is, with household employers. Thirty were conducted with household employees. There was no overlap between employers and employees; I avoided interviewing either current or former employee-employer pairs, in order to gain the trust of participants. I was concerned, for ethical reasons, that this research project could otherwise interfere with the sometimes-delicate emotional ecology of the employer – employee relationship. The goal of each interview was to discover how various pressures, perceptions, and relationships – the IRS, the employee, fellow employers, career aspirations, social norms, personal ethics – affected the employer's decision to pay or to evade nanny taxes.

My definition of an employer was one who employs an individual to care for children in the parent(s)'s own household or to perform housekeeping services. (Many nanny/housekeepers transition between the two kinds of work as jobs come and go, or as the employer's needs change.) I implemented the technique that Hondagneu-Sotelo (2001) used to find a diverse set of employers to interview in her study of Hispanic domestic workers in Los Angeles. She began with employers who were different from one another in several important ways. Then, she snowball sampled. That is, after recruiting one such individual, she asked them to recommend several others, who would naturally share some of their salient characteristics, such as profession or social network.

I recruited initial participants by personal contact. Subsequent employers were recruited through the activation of my personal, social, and professional networks, combined with referrals of others by the initial participants. I chose to recruit by spoken word and personal contact only. I used in-person conversations and telephone calls to recruit individuals, rather than using letters or electronic mail. Neither I nor the potential participants would have been comfortable with an internet trail regarding their potential participation in a study of tax evasion. There are online membership sites for parents (primarily mothers) of young children organized geographically. However, utilizing that platform to advertise for participants potentially could have linked that internet membership list to the study in the very unlikely event of press or government investigation of nanny tax evasion. It could also have distorted the results by igniting a group discussion of the nanny tax issue that could have altered the participants' points of view prior to the interviews.

Small (2005) argues that because of the holistic nature of qualitative research, the "representativeness" of a collection of participants would be hard to establish *a priori*. It requires ranking characteristics and selecting which ones to use as markers. For example, a study of the U.S. population might be representative in terms of race and gender by being proportional to the population percentages. However, this sample might not then be representative by age or income. Any group of women is both representative and unrepresentative at the same time, depending entirely on how we bound the total population and how we perceive what would be 'representative.'

The group of employers I interviewed was not very representative if the total population is defined all household employers. In fact, there is no way to know the boundaries of the universe of household employers well enough that a statistically meaningful standard of representativeness could be reached by any sampling procedure. I did strive for diversity, however, among the employers. They are diverse in terms of gender, marital status, age, number of children, political affiliation, sexual orientation, and to some extent, income level. I believe that my personal experience with household payroll taxes and my resulting empathy helped me both in recruiting employers and in gaining their trust.

I studied a network of Filipinas employed in households who comprise a distinct social group because of their occupation, employment location, and Filipina identity. I analyze the ways that this particular group perceives and responds to the payroll tax decisions of their employers. For the study, my definition of an eligible household employee was an individual who worked for households in the capacity of a private provider of child care or housekeeping services. My sample selection protocol excluded undocumented workers for two reasons. Being illegal to work and having no Social Security number confounded the tax compliance issue for private child care. There is no tax credit for privately hired child care unless the employer provides the Social Security number of the worker on Form 2441. Furthermore, not accepting undocumented workers also helped convey to potential participants my concern for protecting their privacy and well-being thus increasing their likelihood of participation.

The recruitment and enrollment process of employee participants went as follows. First, I explained why I was doing a research project and that the project was about payroll taxes. Then I explained the nature of the question I was trying to answer (what made people willing/unwilling to pay payroll taxes for nannies and housekeepers, etc.). Next, I explained my commitment to guard their privacy and anonymity and how this would be done. I explained that no negative consequences would result from halting the interview at any point, or from calling later to ask me not to use their interview material. I went out of my way to assure them that there would be no hard feelings and that there was no shortage of candidates to interview; their own individual participation was not crucial to the success of the project. Appendix A contains the Explanation of Study letter and the Informed Consent Form. None of these interviews would have been possible without several informal intermediaries becoming familiar with me and being able to vouch for me as a sincere person of good will, as well as a respectful person trying to make a contribution to the welfare of people doing domestic work for a living. These women were the key to my gaining the interest and trust of additional participants. They held positions of informal power in the network. They directed social activities, helped others find jobs, roommates and other resources; other women tended to follow their advice and guidance.

I began by recruiting and interviewing the social leaders. This allowed the other potential participants to learn indirectly that I was trustworthy and that, as some interviewers have been told, the interview process can actually be an enjoyable and cathartic process for a person who is not normally valued for their life experience. As mentioned earlier, I did not interview employer-employee pairs. This choice clearly allayed anxieties that would otherwise have arisen.

3.4 Interview Procedure and Analysis

Appendix B contains questions used in the structured part of the interview. I did not ask all participants all of the questions, although by keeping a separate list of issues, I was able to address each key topic with each subject. Regardless of how many preliminary conversations we may have had on the topic of my research, I reviewed the scope of my study, its purpose, the fact that their names would not be used, offered them the opportunity to decline to do the interview, and officially ask for their permission to do the interview. Next, I focused the discussion on the nanny tax question. From there, I let the conversation go where the participant took it. I prompted for the experiences of others as well as of the participant. If the conversation digressed too far, I asked another, more focused question. Spradley (1979) gives many examples of differential use of question types to draw out an interview subject. Because the interviews took place over many months, I was able to learn lessons from the earlier interviews.

The Filipina nannies in this network gather almost daily in casual group settings, at the park in good weather, or at an indoor the mall, or at the houses of amenable employers. Hence it was not hard to contact and recruit interview subjects. Scholars interviewing women involved in child-care often go to lengths to make it convenient for the respondent, for example, meeting at a playground, or offering to help with entertaining children at the participant's home while they prepare dinner (Wrigley, 1999; Parreñas, 2001, 2005; Hondagneu-Sotelo, 2001). Because of the workday gatherings described above, I also was able to arrange times and places for interviews without inconveniencing interview subjects.

I processed the results of my interviews several times, first with a strict focus on my tax compliance research questions, and later with a softer focus to discern nuances I might have missed. Bernard (2000) describes this method of diffuse attention to the interview material as the ocular scan method as well as the pawing method. In contrasting the issue-focused approach with the case-study approach (mine is the former) Weiss (1995) makes the point that unless one knows what one is reading for, one cannot properly build a construct capable of organizing a large, unwieldy amount of interview research material. In this case, the material consisted of sixty narrative interview reports as well as corresponding numerical representations of the subjects' demographic information.

Because I frame the tax compliance decision as the outcome of a complex conflict of opposing motivations impacted by demographic, sociological, and personal factors, I utilize Kohlberg's moral reasoning apparatus described in the review of literature. I sorted out respondents' motivations for tax compliance and noncompliance into the several stages of moral development: fear of detection probability fits solidly into the first, that is, pre-conventional stage.[1] The impact of social norms fits into the conventional stage. Altruism, concern for social justice, and identification with the aims of the welfare state fit clearly in the third, that is, post-conventional stage. So, in addition to the existence of conflicts between motives, the reasons given by taxpayers can be viewed in the context of moral development.

3.5 Limitations of the Interview Research

Regarding the specific issue of household payroll tax compliance, my perspective since becoming liable for household employer taxes myself has expanded beyond considering it a matter of ethics and politics. I am aware of the factors of complexity, filing costs, peer pressure and self-advocacy on the part of household employees. Being aware of my own impact on an interview subject was the first step in mitigating that impact. Beyond a certain point, we must accept that all research is inevitably influenced by the researcher. I tried during the interview process to keep an open mind. I understood that there would be ethical diversity, so to speak, among both nannies and employers. Weiss (1995) warns those doing interview research to be aware of this. I also tried hard not to idealize the nannies nor prejudge the employers. Parreñas (2001, 2005) at times found some nannies demonstrating such common human frailties as greed, manipulation, dishonesty, and materialism, qualities, which were sometimes exacerbated by their circumstances.

One limitation of the study is the comparatively small number of interviews I conducted. Ethnography usually involves more extensive study of a smaller number of people than does a quantitative study and often focuses on subjects' inter-relationships. Another inescapable limitation of the study was my own subject position as an outsider, and moreover, as a former household employer. Feminist qualitative researchers try to address issues with ourselves: how we take into account our subject position, that is, our own effect on the things we observe and the way we present them to others. This type of research is also concerned with power relations between ourselves and those participating in the study, with how we treat them and what they are left with after the fieldwork is done (Wolf, 1996).

The ordinary power differentials are augmented by my subject position. However, awareness and sensitivity are the best ways to address these problems. My results may differ from those potentially gathered by a non-employer, but they will be of higher quality in some ways as well. For example, I enjoyed greater access and trust with employers by being one of them. In addition, the groundwork had been laid for this project over several years of frequent contact with the Filipina social network I worked with.

Trust can be an issue in researching a topic like tax compliance. In addressing the issues of gaining access and trust when performing ethnographic research, there are many lessons to be learned from both Edin and Lein (1997) and Edin and Kefalas (2005).[2] Learning the answers to the major question in each project took a tremendous feat of accessing, engaging, and empathetic interviewing of the women who participated in the studies. In my own project, I found that establishing that rapport with subjects was sometimes a lengthy process. However, this rapport made possible a body of interview material characterized by depth, intimacy, candor, and vividness.

To what extent should we be concerned about the truthfulness and accuracy of employers' responses? Employer reluctance to reveal unattractive personal traits could motivate respondents to lie. Limited self-awareness and rationalizing could both generate inaccurate explanations of their tax choices. For that matter, how can we rely on the truthfulness of the nanny interview material? Indeed, one risk which all interview research runs is that untruthful responses will reduce the value of the interview material and the conclusions drawn based on that material. It is within the researchers' control to explain carefully the aim and the possible benefits to others of the study, to build rapport with a respondent, and to engage the respondent in the process of discovery. However, despite ensuring everything possible is done to maximize respondents' willingness to be open and honest in their responses, ultimately the researcher will not know whether or not certain responses are truthful or mendacious. By extension, the consumers of conclusions based on those responses will not know whether or not the conclusions are valid.

3.6 Conclusion

My primary purpose for interviewing not just employers but a sample of household employees as well was to uncover new anecdotal material from which I could potentially generate new hypotheses about the determinants of employer tax compliance with payroll taxes. These employees were ordinarily in a home for upwards of forty hours, often for several years.[3] Presumably the employee had many domains across which to observe employer behavior both related to the employee and unrelated (household purchasing patterns; wages paid; handling of time-off, etc.). I conjectured that their position in the household gave them a unique and perhaps valuable perspective on the drivers of employer fulfillment or neglect of payroll obligations.

Because the norm is noncompliance, I sought especially hard to understand compliance. Poor personal ethics regarding tax returns, financial self-interest and administrative laziness do appear as ready explanations for tax evasion in the case of household payroll taxes. However, I hoped to learn more from the thirty nanny interviews about why compliant employers were compliant.

Ultimately, an employee has value as a sentient witness involved in the payroll tax situation, however uninformed the employee may be about payroll tax rules. Regardless of their power position in the employment relationship, the worker is aware of an explicit or tacit initial agreement regarding working on the table or under it. Therefore, I reasoned, household employees might have information regarding the factors contributing to compliance or noncompliance.

Notes

[1] See Chapter 2, p. 16.

[2] These two studies of low-wage and welfare-dependent mothers exemplify the effective use of ethnographic research. Edin and Lein (1997) interviewed several hundred women in several cities intensively enough and in enough financial detail to construct budgets, which revealed the extent to which informal work arrangements and social network support bridged the gap between their official income and their monthly expenses. Edin and Kefalas (2005) studied 162 unmarried mothers in order to discover the reasoning behind the mothers' choices. They found surprisingly clear and realistic decision-making. Not marrying their children's fathers turns out to have been more sensible in most cases than marrying them. Having children – given the limited opportunity these women had to dream and to prepare themselves for careers – assumed a higher priority and held greater meaning for them than is widely believed among critics of welfare mothers.

[3] The average job spell appeared to be two to three years, although I did not collect data on employee subjects' employment episode length.

CHAPTER 4

ANALYSIS OF IRS TAX DATA ON HOUSEHOLD EMPLOYMENT PAYROLL TAXES

4.1 Introduction

There is no publicly available data on household employment payroll tax payments[1]. Although one can become an expert in the abstract on the complexities of the household employer section of the federal individual income tax return – the Schedule H – this tax makes up such a small percentage (0.08%) of the overall tax revenue collected and such a small percentage (0.15%) of returns that there has apparently been little research demand for this information.[2] I spent over three years obtaining the data, incomplete though it may be, for this chapter. In it, I examine this best available IRS data on tax returns containing Schedule H. I first describe the process of getting the IRS data, provide variable explanations, and mention some of the limitations of the data. Next I discuss tax and demographic characteristics of the household employer payroll taxpaying population as seen in 2006 summary data on all returns filed. I then analyze data from 2001 on the several hundred household employer tax returns that, fortunately for this project, happened to be selected for audit when the IRS drew a research sample of over forty thousand returns. In the next chapter, I will show that when we compare the number of Schedule H's filed with official statistics for workers in private households we see a significant shortfall in compliance for every year examined.

Since 1996, household employers have reported and paid their federal payroll taxes once a year on their individual income tax returns through the use of Schedule H –

described in detail in Chapter 1.[3] Yet all of the IRS data available to me was aggregate data, preventing analysis at the level of the individual tax return. IRS confidentiality practices also reduce the research value of the information I was able to obtain. However, scrutiny of the distribution of payroll tax amounts paid shows that most Schedule H filers are paying small amounts of tax on very low annual wage totals. Also, examination of demographic characteristics of Schedule H filers shows that although this tax is called the nanny tax in common parlance, just over half of Schedule H households have no indications of caregiving on the return. That is, over half of these households take neither a child at home exemption nor take the credit available for child and dependent care expenses, which is available to some extent to all taxpayers, regardless of income.

In addition to this cross-sectional data for 2006, I examine eleven years of longitudinal data on Schedule H filings counts and amounts of Schedule H tax paid. I note the downward trend in returns filed identified by Bloomquist and An (2006). I find that despite fewer returns filed each year, the overall amount of real household wages paid rises, and propose some explanations for this.

4.2 IRS Records of Household Payroll Tax Payments

When I began researching this dissertation, no scholarly articles or dissertations touched on household employer payroll taxes. During my initial research stage, Bloomquist and An's paper (2006) appeared on the web after the 2005 National Tax Association conference. In my subsequent contacts with the IRS Office of Research, economist and computational social scientist Kim Bloomquist very graciously explained his research, including the fact that he had compiled the data himself from raw IRS masterfile records unavailable to the public. I wrote a data request to the IRS in 2006, made a small informal presentation at the IRS Office of Research in 2007 in support of my request, and pursued my request into 2008 through contacts with several Office of Research staff members.

During this process, I came to respect and appreciate the great effort made by the IRS to protect the confidentiality of each taxpayer's information. In 2008, the Office of Research was able to give me certain segments of Schedule H data appropriately anonymized or blurred with the consequence of having ranges or buckets for variables without the specific values themselves, thus protecting taxpayer confidentiality. In addition, I was provided with certain aggregate values for a time series of variables concerning household wage and tax amounts. Finally, a small subset of audit results which concerned household employer payroll taxes from the National Research Program data was made available. Because this was an exploratory study, all of this information was of great interest to me, being a first look into the darkened room of household employment taxes. Although falling short of the research ideal of individual tax records required for modeling household employer payroll tax return correlates, this data allows significant descriptive insight into and analysis of the filing of household employment taxes.

The IRS has two kinds of data that provide some information on household employment tax compliance. The first is the complete set of tax records of everyone filing in a given year. This is not sample data – all tax filers, including those who filed a Schedule H with their return – are included in it. Some quarter million or so of these returns – 0.15 percent – include a Schedule H. These data are exciting for the complete picture they afford of filing trends and distributions. This information includes types and amounts of income, and credits and exemptions based on children and child care; there is a wealth of information about the tax-relevant features of these compliant employer households.

The second kind of data offering insight into household employment taxes is National Research Program (NRP) data, a large sample of audited returns. The IRS obtained the NRP data set by drawing and auditing 44,768 returns from a total population of 125,791,000 tax returns filed for 2001. The rigorous representativeness and careful weighting of the sample returns enables researchers to generalize from their analyses of the material. In other words, the NRP data provides population estimates based on the weighting of the sample. Therefore, the data set allows us a fairly good estimate of how many dollars were paid, how many dollars were owed but not paid, and how many dollars were overpaid, that is, paid in error. Of these over forty thousand returns, luckily for household employer payroll tax research, over four hundred returns had either filed an H or were found by the audit to be *required* to file a Schedule H. That is, these returns either reported household employer payroll taxes to begin with, or the post-audit return – the corrected return – reported household employer payroll taxes. The NRP data set is the only information the IRS has on taxpayers who were found not to have been paying these taxes. The second half of this chapter analyzes these audit findings.

The NRP data are broken down by type of tax owed. Therefore we can examine Schedule H payments in these terms. One startling result is that despite an estimated twelve million dollars in additional household employer payroll tax being collected because of the audits, *eleven* million was returned to different Schedule H filers for paying too much in error! This statistic alone confirms an important result in my interview research: that many filers don't fully understand the law.

4.3 Tax Return Variables

The IRS provided me with information on five Form 1040 variables and four Schedule H variables. The Form 1040 variables are all dichotomous. Specifically, these variables contain information on whether the tax return has or does not have the following characteristics: married filing jointly (MFJ), taxpayer age sixty-five or over, at least one child at home exemption, the Child and Dependent Care Credit (CDCC), or adjusted gross income (AGI) over $150,000. This amounts to a seven way cross-tabulation of the complete set of 2006 returns, the seventh variable being whether or not the return included a Schedule H. In IRS data, filing status is an ordinal variable with five possible values: Married Filing Jointly, Married Filing Separately, Single, Qualifying Widow(er), and Head of Household. This variable contains information about the number of dependents a taxpayer may legitimately claim. There is a clear hierarchy of tax advantage in the statuses, and taxpayers are motivated to file for the most favorable, the support, the presence, and the type of dependents being the most important determining factors. In future research I would like to examine how filing status impacts Schedule H filing. Unfortunately, my data indicates only whether or not the filing status of the tax return was MFJ or was not MFJ. The age 65 and over variable is based on a box checked on the first page of the tax return. The finer points regarding eligibility to claim a dependent child are spectacularly complicated.[4] Although the number of children is known to the IRS from information on Form 1040, the data I have only contains a true or false value for the presence of a Child at Home Exemption. The Child and Dependent Care Credit offers up to $1600 credit against care purchased by the taxpayer. Although it is reduced as income rises, it is still available to those with the highest incomes. I chose to use the child at home exemption but not to use the Child Tax Credit as a proxy for children in the home because the Child Tax Credit is not available to taxpayers with more than $75,000 AGI ($110,000 filing jointly). Adjusted Gross Income represents the sum of taxpayer income prior to taking deductions for such things as mortgage interest, business and medical expenses. Although flawed for intertemporal comparisons of household income due to the changing tax code governing what is and is not excluded from AGI, this number is an accepted measure of household income (Petska and Strudler, 2000). I have only a dichotomous variable for AGI – over $150,000 – or not. AGI appears as a line item on the tax return.

The remaining four variables come from the Schedule H and are continuous rather than dichotomous. I drew the following descriptions of the official IRS variable descriptions.[5] (a.) Wage_med: the variable “Schedule H Wage Subject to Medicare” is the amount of total cash wages subject to Medicare taxes, as opposed to Social Security taxes, which are limited to the first $102,000 of wages per employee. It is the *total* wage bill: there could be more than one employee. It is reported on Schedule H, Line 3. The amount of gross wages paid is closely related but not precisely proportional to the amount of federal (as opposed to state) nanny taxes paid by that employer. This is because the Federal return gives credit for state unemployment taxes paid, which vary by state. The wage amount tables and figures in this chapter are based upon this variable. (b.) Hld_empc: the variable “Schedule H Household Employment Computer” is the computer calculation for the amount of household employment tax reported on Schedule H, Line 27. This variable represents the total amount of household employment tax to be paid. It is not the precise sum of total Social Security, Medicare and Unemployment tax, although it is very close. It gives credit for any advance Earned Income Tax Credit payments made by the employer. However, to get a sense of perspective on how minor the perturbation caused by including any employer-made advance EITC payments, consider the following statistic. Per IRS records for 2003, the only year for which this particular statistic is available, there were only 418 out of over a quarter million cases of a household employer providing advance EITC payments to an employee.[6] (c.) Futa_txc: the variable “Schedule H FUTA Tax Amount” represents the total amount of federal unemployment tax paid. It has been adjusted by credit for state unemployment tax already paid, where applicable. There is a ceiling on the amount of FUTA because the wages on which unemployment taxes are owed are capped at a certain amount. It is reported on Schedule H, Line 17 or Line 25, depending on whether state unemployment taxes were filed in more than one state. (d.) Tlssmedc: the variable “Schedule H Total SS Medicare Tax Computer” is the computer calculation for the amount reported on Schedule H, Line 8 and Line 26. This means it does not include FUTA, as described above, so state-by-state variation in FUTA credit amounts does not affect it. In future research, I hope to use this variable in geographic analysis as it removes variation introduced by state-level decisions about unemployment tax rates. In this study however, the tables and figures displaying household employer tax amounts are based upon (b.), the IRS's variable labeled "Schedule H Household Employment Computer" because this is the bottom line amount of household payroll taxes the employer owes.

4.4 Data Limitations

As mentioned earlier, the data are highly aggregated. For example, rather than having the constituent individual records underlying a distribution of household employment payroll taxes paid for a given year, I was only given buckets, that is, numbers of records within uniform ranges. IRS confidentiality practices are so stringent that, for example, I was never allowed to have the range of any variable, for that would be revealing specific taxpayer information. Although I was able to examine frequency distributions in the Schedule H variables of amounts of household wages paid and household employment taxes paid for 2006, I do not have data at the level of individual records. Similarly, although I have cross-tabulations for 2006 for the four Form 1040 variables described above for both Schedule H filers and non-Schedule H filers, I do not have access to individual records and therefore cannot yet build a model of household employment tax payment correlates at the individual level. Regarding NRP data, ideally I would like to have compared the compliant and noncompliant returns on demographic variables and on income measures as well to see if any meaningful differences exist. However, the inability of the IRS to release individual tax records to me remains the greatest limitation of the quantitative aspect of this study.

4.5 Comparing Schedule H Filers to the General Filing Population

In this section, I examine the four variables characterized above as the “Form 1040” variables. These variables are drawn from information on the general tax return as opposed to the Schedule H used for household payroll taxes. Table 7 compares household employers with other taxpayers, finding them to be older, more likely to be married, and far likelier to have at least middle-class incomes.[7] As Bloomquist and An (2006) noted in their perusal of TY2003 data, this stands to reason. That study calculated an average number of Child at Home Exemptions for each group, finding that the general population had 0.6 such exemptions and the Schedule H population had 0.9 such exemptions, on average. My data does not allow that calculation, but does reveal the following: 33.6% of the general population took at least one Child at Home Exemption, while 48.1% of the Schedule H population did so. Finally, I also look at the Child and Dependent Care Credit: 4.8% of the general taxpayers took it, but 22.7% of the Schedule H filers did, over five times as many.

Table 7: Comparison of Schedule H Filers with All Taxpayers

Characteristic	All Taxpayers	Schedule H Filers
Age Over 65	12.9%	37.3%
Married Filed Jointly	38.6%	70.3%
AGI Over $150,000	5.2%	65.3%
Child-at-Home Exemption(s)	33.6%	48.1%
Child and Dependent Care Credit	4.8%	22.7%

Recall from the review of literature that the latest year available to Bloomquist and An (2006) was 2004. Using that data, they established the significance with regard to Schedule H filing of four demographic variables. These were the characteristics of age over 65, married, took the child-at-home exemption, and AGI over $150,000. Using new data from 2006, I was able to establish that the five dichotomous categorical variables of Married Filing Jointly, Age 65 and Over, AGI over $150,000, child at home exemption, and Child and Dependent Care Credit were all significantly related to whether or not the tax return contained an employment tax return by using a Chi-square procedure.[8]

It makes sense that nanny tax filers are significantly more likely to have a child at home, to have child and/or dependent expenses they can claim on a tax return, and to have an over-65 year-old person in the household. Presence in the household of the young, old and ill or disabled would be a natural correlate of a need for caregiving help. The marriage variable makes sense due to the probability that families with higher joint incomes could better afford to hire services, as well as the increased likelihood of children in the home when compared to all single adults. Likewise, an adjusted gross income of over $150,000 makes it more likely that a taxpayer could hire household help, care-related or not.

Let us look more closely now at the households that have a child at home exemption and claim child and dependent care expenses. Claiming the expenses implies that care is purchased on the books. The reasoning here is that to claim the credit, the taxpayer must provide either the daycare center's tax identification number or the individual care provider's Social Security number. No one paying under the table can claim the credit due to this check against fraud. Furthermore, day care expenses paid to relatives are not eligible for this credit. Among the 135,811,098 non-Schedule H households, 4.6% claim both the exemption and the credit. However, among the 208,962 Schedule H households, 22.4% – over four times as many – claim both the exemption and the credit. 48.4% claim one or the other. This may seem obvious – of course households hiring help are more likely to have children or to have others needing care services. However, it then follows that 51.6% of the Schedule H households do not appear to be paying those wages for caregiving. This we know by calculating what percentage of these households neither take the child exemption nor take the Child and Dependent Care Credit (CDCC). This is an important distinction because the tax rules allow non-custodial parents to take a credit for childcare expenses, despite their ineligibility for the child exemption. (The child exemption is given only to parents living with the child.) Since the examination of demographic variables above had led us to conclude that the presence of those needing care was significantly associated with filing a Schedule H, this fact is important. It stops us from forming a false impression of the Schedule H filing households as hiring primarily caregiving labor!

As I have argued above, a close reading of the tax regulations regarding claiming child and dependent care expenses indicates that the CDCC credit should be a reliable indicator that on-the-books wages are being paid. Therefore, it would be illogical for someone who is already nanny tax compliant to forego the tax benefit afforded by the CDCC. Therefore, I would argue that the 48.4% of the Schedule H households not taking either the exemption or that credit are purchasing services such as housekeeping, cooking, and the like as opposed to care for those who are children, who are elderly, who are ill or who are disabled. If true, this has implications for the comparison of compliant and noncompliant household employers. That is to say, those employing caregivers appear to be quite underrepresented among the nanny tax compliant.

If we examine the Schedule H filers who took the CAH as well as the CDCC, we see that 46.6% of all the Schedule H filers with kids in the home also took the CDCC.[9] Now, that means that 53.4% of these Schedule H filers with the CAH did *not* take the CDCC. In this group are both the people who hired for non-caregiving work, e.g. housecleaning or yard work. Wouldn't this group also include people with household help that paid under the table? No, it would not; those going to the trouble of filing payroll taxes are very likely to take advantage of a well-known tax credit. Once they have decided to file Schedule H, those wages are visible to the IRS and to the Social Security Administration, so there would no longer be an incentive to forgo the credit.

However, of all 46 million individual taxpayers who took the CAH exemption, how many also took the CDCC? 13.7%. That means that of all filers with at least one child at home, 13.7% also took credit for day care of dependent care expenses, but 86.3% of taxpayers with kids did not take the CDCC. Of course, the vast majority did not have household employees working under the table, but all households paying for childcare off the books are located somewhere within this group of taxpayers. Although lacking the data to perform these calculations, in future research I would hope to isolate those returns in this category – no H, the CAH, but no CDCC – that report two six-figure incomes and have just begun to claim the CAH in the past three years. This is the tax profile of a couple who both work, have a young child, and can afford a private child care worker, but are choosing to skip payroll taxes.

4.6 Amounts of Household Wages and Payroll Taxes

I turn next to the overall distribution of wages reported paid in one year, 2006. Figure 2 shows the first 99.56% of this very skewed distribution. This data represents all but 914 of the 207,111 Schedule H filers that year. (I present a close-up of the extremely long flat right-hand tail shortly.) From the illustration below, we can see that the vast majority of household employers are paying a very small overall wage bill. The first column represents returns showing less than $5000 of wages paid; the second column those showing between $5000 and $10,000, and so forth. Notice the very steep drop-off. Since 2006 mean household wages reported were $18,790, (not shown), and since the median figure (rounded for anonymity to the nearest thousand) was $10,000, this indicates the presence of some extremely high wage bills at the opposite end of the distribution.

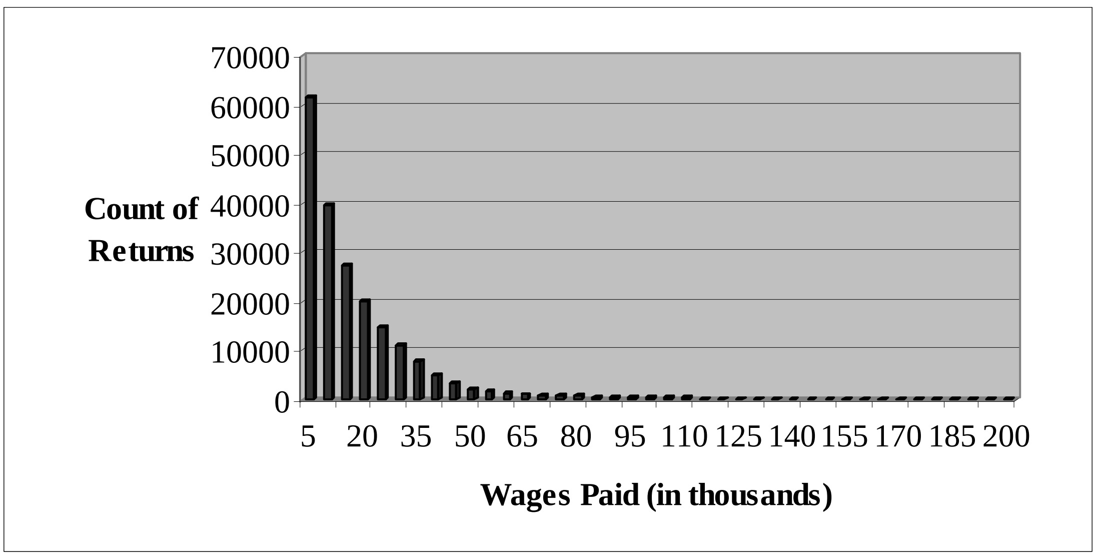

Figure 2: Overall Distribution of Total Household Wages Paid in 2006 by Household Employers

Figure 3 shows a close-up of the wage amounts under $14,500. When we disaggregate the returns in steps of $1500 (as opposed to $5000 above) it allows us to see the preponderance of returns at the low end of the scale. In fact, one quarter of the returns report under $4000 of wages paid.

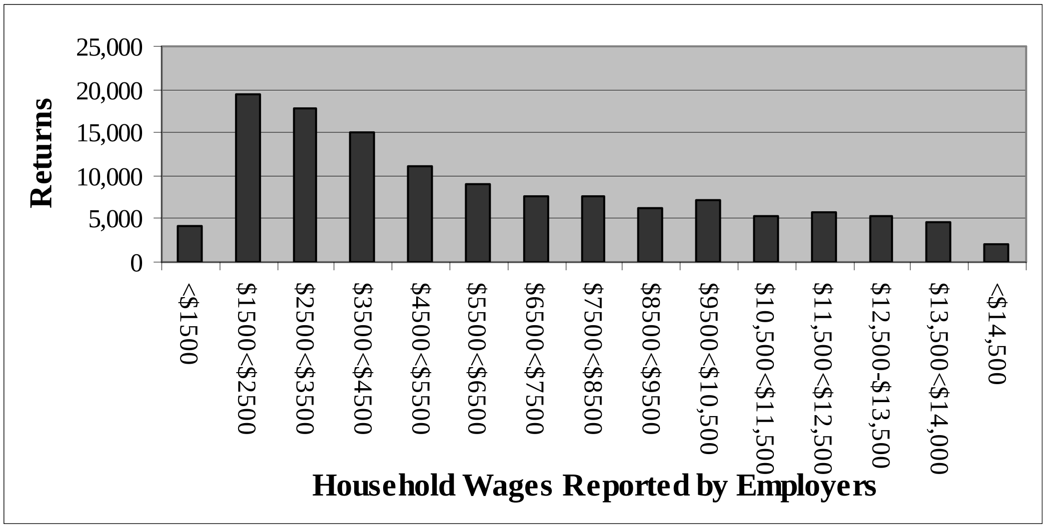

Figure 3: Household Wages Reported in 2006 by Employers: Wage Amounts under $14,500.

It is interesting to zoom in on the long, flat, right-hand tail of the distribution. Figure 4 shows the 899 returns filed with between $200,000 and one million dollars in household wages.

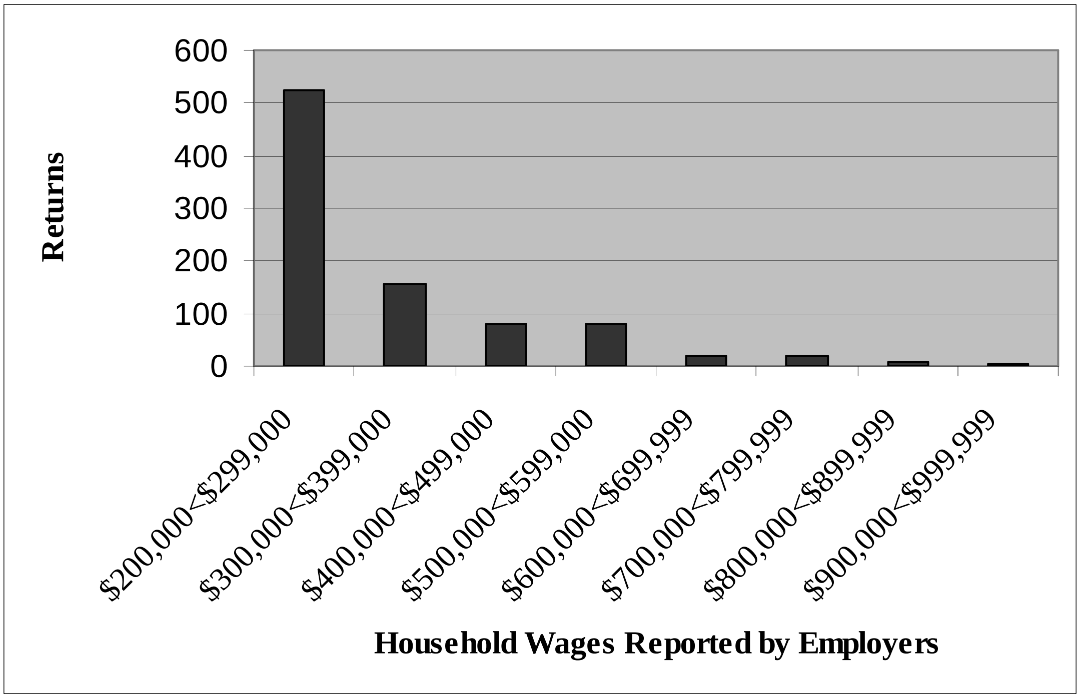

Figure 4: Detail of Household Wages Reported: Wage Amounts $200,000 to $1,000,000 (2006)

Recall that there is no way of knowing from tax data alone how many employees a household employs. These returns almost certainly represent large households with a considerable number of workers. Data on the 914 tax returns reporting over $200,000 in household wages is range information alone. In providing the data to me, the IRS Office of Research was required to blur precise amounts into dollar ranges in order to prevent the release of actual amounts.

Finally, Figure 5 presents a close-up of the amounts of nanny tax reported in 2006 by those households owing under $25,000 in tax. As we would expect, given the proportional relationship between wages and taxes, the distribution of household employment payroll taxes paid has an extremely long right-hand tail. The following figure is a close-up look at the lower end of the distribution, with a cut-off amount of $25,000 in tax paid. 98% of the 207,111 returns filed in TY 2006 are represented here. Only 4242 returns contained nanny tax amounts over $25,000.

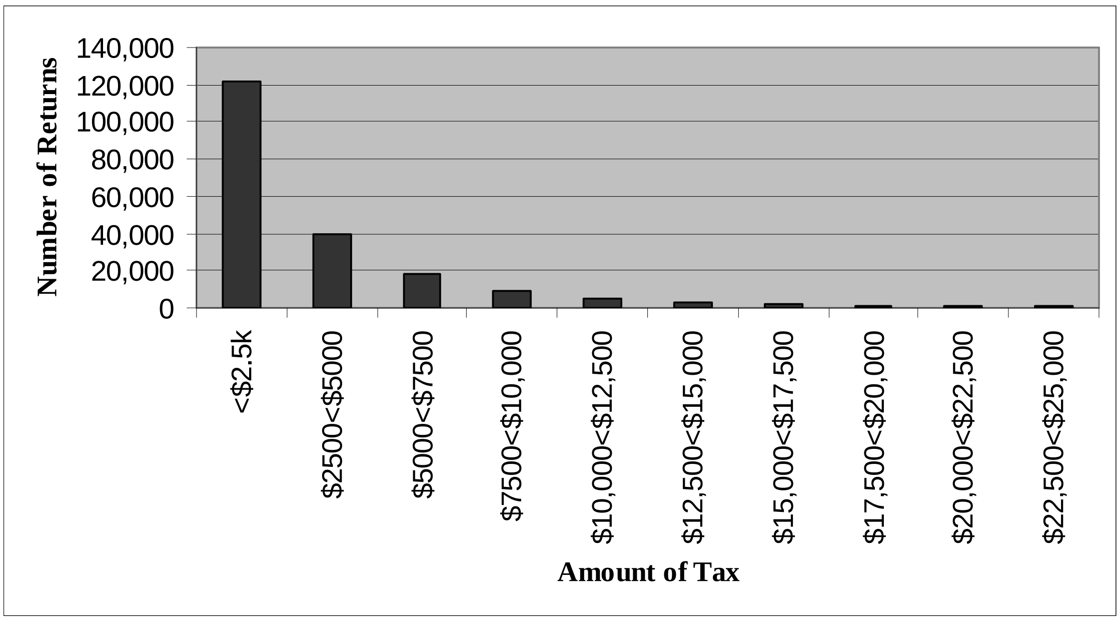

Figure 5: Detail of Distribution of Household Payroll Taxes Filed: $25,000 and Under (2006)

These charts of the household wage and nanny tax distributions for 2006 tell us two important things about Schedule H filers. First, some individuals are paying sizeable amount of nanny tax. A wage bill of $100,000 carries a payroll tax liability of close to $10,000; in addition, the maintenance of that tax compliance for a number of employees may well require some outlay for accounting services.

A second lesson is that the majority of the compliant Schedule H filers overall have low wage bills. They are in all likelihood employing part-time workers. Consider these figures: 62% are paying less than $15,000 for household help. Half are paying less than $10,000; a quarter are paying less than $4000. Although some of these are probably paying full-time, year-round workers a salary that is below the minimum wage, most of these wage amounts are likely to come from the compliant employers of part-time caregivers and yard workers. Remember that all of these data are collected from the tax returns of employers who paid their taxes. One finding in the tax compliance literature reviewed earlier is that the lower the tax, the likelier it is to be paid. Therefore, the actual household wage distribution, and therefore the actual distribution of nanny taxes owed, is likely to be higher.

4.7 Time Trend of Schedule H Filings and Tax Amounts

In 1996 there were 317,010 nanny tax filings; by 2006 that number had shrunk to 207,111, a drop of 35%. Figure 6 shows the steady decline.

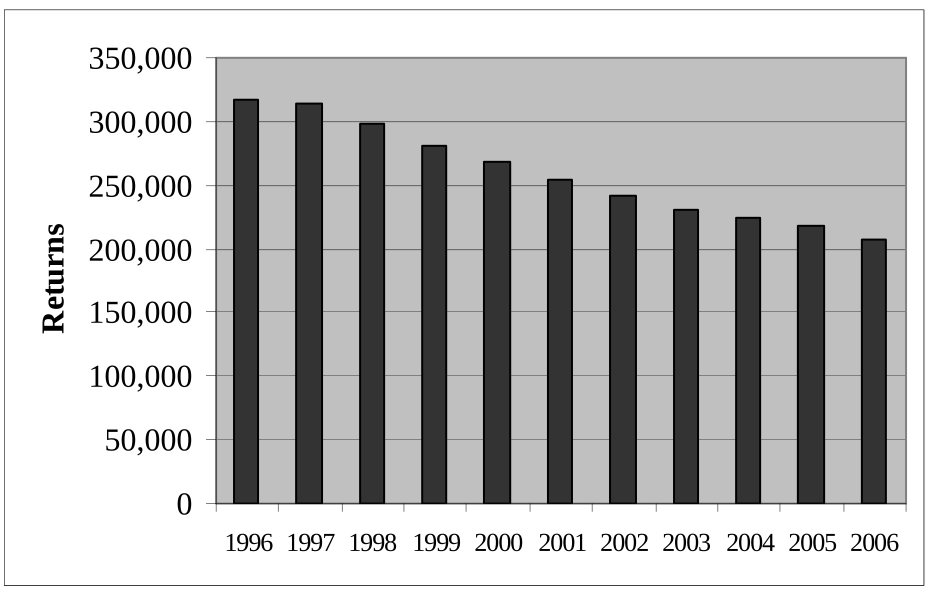

Figure 6: Schedule H Filings, 1996 – 2006

Total household payroll taxes paid rose from $682,423,940 to $857,552,158 in the same period (see Figure 7). Adjusted for inflation, this represents an increase of about 10%. Interestingly, the average household tax paid, $2,153 in 1996, by 2006 had risen to $4,141 (see Figure 8). This represents an inflation-adjusted increase of almost 20%.

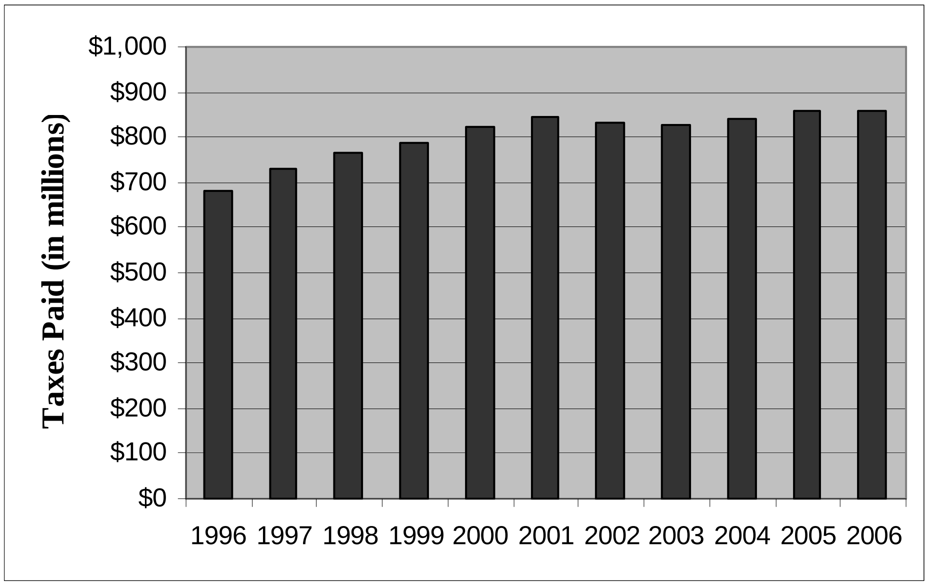

Figure 7: Total Household Payroll Taxes Paid, 1996 – 2006

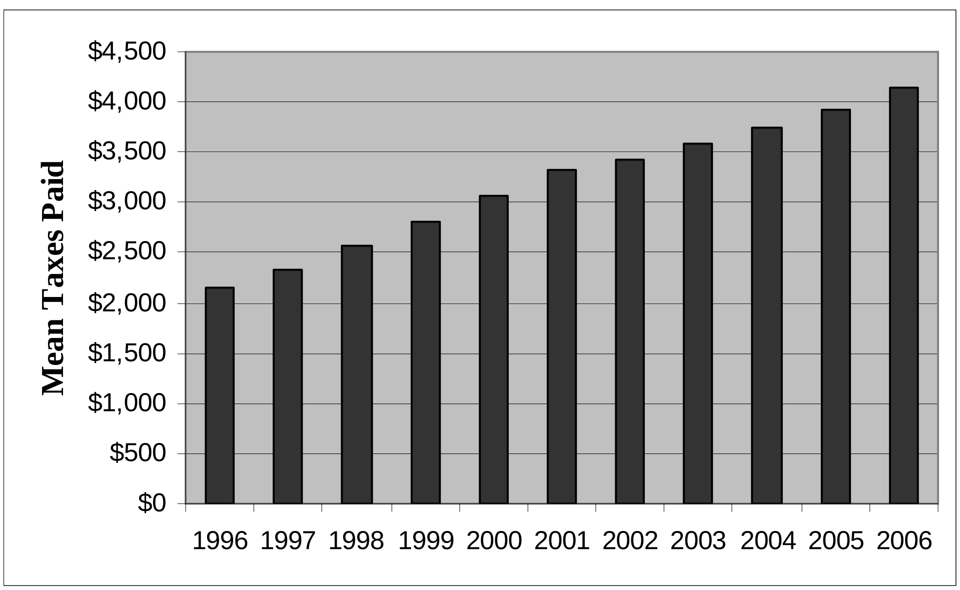

Figure 8: Mean Schedule H Taxes Paid, 1996 – 2006.

The Schedule H time series show that constant-dollar household taxes collected grew by a tenth, with the average tax amount rising 20%, at the same time that the set of taxpayers filing them shrank by over a third. Since it is unlikely that wages rose by 50%, or that the composition of the household workforce changed dramatically to include higher-paying professions, we must seek another explanation. Perhaps a third of households stopped hiring help while another third decided to double their number of employees. This would explain the drop in filing while the inflation-adjusted mean household tax amount almost doubled. The data does not allow us to test this hypothesis, as Schedule H does not identify employees or even how many employees a household is paying tax on. However, the demand for household employees has grown along with greater income inequality and the associated demand for luxury goods. That is, fewer employers per employee may be filing. After consideration of the distribution of tax amounts paid in 2006, however, I consider it more likely that many of those employers at the low end of the tax amount distribution have dropped out, causing the average to rise. Another possibility is that there has been an increase in illegal immigrants doing these jobs, and since legal workers tend to get higher wages than they do, the average wage of reported workers has gone up

The larger question of why filing dropped in the first place is a separate question. To begin with, I concur with Bloomquist and An (2006)'s tentative conclusion that it may have dropped due to the increase in the proportion of domestic labor provided by undocumented workers. It may also be a reflection of the erosion of the gains of the labor movement; concern for the economic well-being of workers seems to have given way to greater concern about the costs of those workers to the company and its shareholders, as evidenced by the successful growth of temporary labor agencies in the last two decades. Perhaps the increasing failure to pay household payroll taxes is a sign of diminishing respect for individual workers and their jobs overall.

4.8 Overview of IRS Audit Data

The National Research Program data set, described at the beginning of this chapter, contains information about the selected returns both before and after the audits. Of the 44,768 tax returns in the sample, only 429 reported Schedule H tax, less than a tenth of a percent. In this data set, the IRS provides population estimates based on the sample information, but does not release the actual information. All figures in this section are taken from these population estimates, which are the best available information for studying household employment payroll tax returns.

Taxpayers submitted returns with payments of just under a trillion dollars. After the audits, an (estimated) additional $74.7 billion was found to be owed, for an overall tax evasion rate of 7.5% Schedule H filers reported $840 million dollars in household payroll tax on their returns. An additional $1.7 million was collected through the audit process. At first glance, this $1.7 million (or 0.2%) of additional household employment tax would seem to be the estimate of nanny tax evasion, a rate which is very low. However, let us unpack that number.

Actually, the audits reveal unpaid Schedule H tax to the tune of $12.8 million, for a nanny tax evasion rate of 1.5%. On the other hand, the same audit process found that other taxpayers had calculated and paid $11.1 million of household payroll tax which they did not owe at all! That is, some of the original Schedule H filers were found *not* to be in need of filing a Schedule H; the nanny tax paid-in-error rate was 1.3%. Therefore, the $1.7 million positive gain in Schedule H tax represents the net after additional taxes collected and overpayments are refunded.

It is remarkable that the IRS refunded 87% as much nanny tax as they collected. Table 8 presents the totals of all tax and of Schedule H tax on the return as submitted as well as the changes in these totals indicated by the audits. The top row gives the total amounts “per return,” that is, what the original return showed. The bottom row, “per exam,” shows the total amounts on the corrected return. Of course, some returns did not need to be changed, and some changes were in the taxpayer’s favor. The pre- and post-audit information in this table is broken down by whether or not Schedule H was included in the return.

Table 8: Overview of Audit Data by Whether a Schedule H was Filed

	Tax Return Before Audit		
	All Taxpayers Except Schedule H Filers	Schedule H Filers	Totals
Total Tax Paid	$968,074,662,000	$31,492,522,000	$999,567,184,000
Change in Total Tax Paid	$74,429,946,000	$273,648,000	$74,703,594,000
Total Schedule H Tax Paid	$12,810,000	$829,050,000	$841,860,000
Change in Schedule H Tax Paid	$12,810,000	-$11,150,000	$1,660,000
Number of Filers in Population	125,500,100	290,900	125,791,000
Number of Filers in NRP Sample	44,339	429	44,768
	Tax Return After Audit		
	All Taxpayers Except Schedule H Filers	Schedule H Filers	Totals
Total Tax Paid	$967,226,942,000	$32,340,242,000	$999,567,184,000
Change in Total Tax Paid	$74,410,731,000	$292,863,000	$74,703,594,000
Total Schedule H Tax Paid	$0	$841,860,000	$841,860,000
Change in Schedule H Tax Paid	-$14,150,000	$15,810,000	$1,660,000
Number of Filers in Population	125,492,800	298,200	125,791,000
Number of Filers in NRP Sample	44,322	446	44,768

4.8.1 Implications of overpayment amount

The fact that so much money was returned because taxpayers had overpaid their nanny taxes (or mistakenly paid any nanny tax at all) is consistent with what my qualitative research showed: that ignorance and complexity are significant barriers to nanny tax compliance. The audited taxpayers discovered to owe nanny tax include both cheaters and the genuinely confused or ignorant. Audited taxpayers who overpaid are clearly uninformed or bested by the Schedule H complexity. That eleven million dollars was overpaid or paid in error illustrates the argument that Schedule H confusion is a stumbling block for many.

4.8.2 Nanny Tax Compliance in the Context of Whole-Tax-Return Compliance

The overall noncompliance rate in this audit sample data set was 7.47%. That is, the additional tax collected overall – 74.4 billion – represented 7.47% of the total final tax collected – just under one trillion dollars. In comparison, as we said above, the Schedule H noncompliance rate was 0.20%. So household employers appear more compliant when compared to the whole-tax-return underreporting rate in the overall sample.

To put the overall 7.47% NRP misreporting rate into perspective, consider the whole-tax-return noncompliance rates in the general population (as opposed to in the NRP sample). A good benchmark for this compliance rate can be found in recently published research by the IRS Office of Research's Mazur and Plumley (2008).They found that individual tax returns had a compliance rate of 99% on income with withholding and substantial third-party information reporting, e.g. wages and salaries. They also found a rate of 95% on income with substantial information reporting, e.g.

bank interest and dividends; 91% on income with some reporting, e.g., S-corporations; and 46% when the income was not subject to any third party reporting and therefore virtually untraceable, e.g. sole proprietorships. This means that the NRP misreporting rate of 7.47% is higher than the estimated rate of the average taxpayer whose income has information-checking, but lower than that of the unsupervised self-employed earners, which stands to reason, as NRP data would contain all four types of return.

There is, however, a very low ratio of discovered unpaid nanny tax to owed nanny tax in the NRP data: 0.2%. In other words, very few are found to have been not paying their nanny taxes, or not paying enough nanny tax. Before we conclude that we have overestimated the problem of widespread nanny tax evasion, consider why that rate might be so low. When wages are paid in cash as they so often are in households, evasion is easy and detection is hard. In addition, the IRS auditors were not looking specifically for households with employees. At any rate, for a number of reasons, I maintain that the low rate of nanny tax evasion found in the NRP sample audits is woefully inadequate as an estimate for nanny tax evasion in the population as a whole.

4.9 Examining Audit Results by Filing Characteristic

In this section and the next, we have an opportunity to investigate the question of who is more likely to skip household payroll taxes – the affluent or the middle-class? On one hand we might expect that higher-income households would be more likely to evade because they likely hire more help and consequently have a larger payroll tax bill. On the other hand, we could imagine lower-income households being more likely to evade because they have less income to spend. Remember, some economists have modeled the nonpayment of taxes as the purchase of a "risky" good, risky because of the possibility of owing a penalty for evasion if caught. In turn, we can think of paying taxes as a the purchase of a good providing, say, peace of mind or the satisfaction of an ethical imperative. Then, a household with less income would have less to allocate to such a purchase. In economic terms, we seek to know which is stronger here: the price effect or the income effect.

After examining the audit data for general and Schedule H filers and noticing the remarkably low percent increase in Schedule H tax collected overall, I then requested the aggregate audit results for household employers broken down by each of the four categorical variables examined above (MFJ, CAH, CDCC, and AGI $150K+). These audit results simply consist of four numbers, each representing the aggregated net change in Schedule H tax for returns with that categorical variable. As we saw before, a small net change may mask a large overpayment counterbalancing a large underpayment. I calculated the percent aggregate net change in Schedule H tax paid separately for each of those four characteristics. The overall change in the MFJ group was a drop of 1.28% - that is, Married Filing Jointly returns among the four hundred involving household payroll taxes collectively had overpaid 1.28% of their Schedule H taxes. Child at home exemption returns had overpaid by 2.48%, returns with the CDCC by 6.92%. However, those returns with AGI over $150,000 had collectively underpaid by 2.73%.

Put differently, the group of those filing with a spouse, of those able to claim a child or disabled household member, and of those with deductible caregiving expenses *all* paid too much. However, the group of those with AGI over $150,000 paid too little.

Bear in mind that the change in Schedule H tax is not per household. That information is not available. If we had per household data, we could test whether or not that upward or downward movement in H tax was statistically significant. At best, with this data, we can say that of the four variables examined, only those returns with AGI over $150,000 had an aggregate underpayment of Schedule H taxes.

4.10 Examining Audit Results by Audit Outcome

The IRS also provided a disaggregation by audit outcome of the same 452 household employers' returns in the NRP data. The Schedule H tax amount on each of these audited returns was the correct amount, was an underpayment, was an overpayment, was not reported at all (evaded), or was paid but not owed (paid in error). Table 9 shows the percentage of household employers in these categories.[10]

Table 9: Audited Household Employers by Audit Result

Audited Household Employers	Percentage of Total
Payment Correct	70.3%
Overpayment	8.9%
Payment in Error	4.6%
Underpayment	9.2%
Nonpayment	7.0%

Earlier we examined audit results in dollar terms. Now we can examine the number of tax returns or households identified as failing to pay Schedule H tax. The percentage of taxpayers paying Schedule H tax after the audits (7.0%) was almost five times higher than the percent increase in tax dollars collected (1.43%). This means that the noncompliance rate for this tax would be much higher were we to measure it in households caught rather than dollars collected.

Compare the proportion of returns that overpaid (8.9%) or paid in error (4.6%) with those that underpaid or did not pay. The summed percentages of overpayments and erroneous payments (13.8%) is almost as great as the summed percentages of underpayments and nonpayments (15.9%). In other words, the IRS is refunding money to almost as many taxpayers as those from which it collects additional tax! In terms of households, this means a Schedule H tax give-back rate of 86.8%.

Based on this remarkable give-back rate, I would argue that the NRP data could not possibly be an accurate reflection of how much nanny tax evasion (accidental as well as purposeful) there is nationally. However, it certainly paints a picture of a Schedule H filing process that produces confusion and mistakes as well as evasion.

The NRP data also provides amounts of Schedule H tax change for each category of audit result. The average refund to those who paid by mistake was almost twice the size of the average amount collected from nonpayers. The weighted mean complete refund to those who paid in error was $978; the weighted mean amount collected from those who failed to pay was $589.[11] This is further evidence to support my contention that, while NRP data does not provide much evidence of Schedule H tax evasion, it does imply that many taxpayers are confused by the complexity of this tax.

These five groups differ greatly in AGI as well (see columns one and two of Table 10). The median AGI on returns which failed to pay Schedule H tax was the lowest of the five groups, at $30,066. The next lowest median AGI ($63,893) belonged to the group paying Schedule H in error. The correct filers fell in the middle with median AGI of $123,439, followed by the underpayment returns with a median AGI of $167,457. The highest median AGI among the five groups belonged to returns with overpayments: $242,315. What can we make of this information? Without statistics on the results of individual audits among the Schedule H population, we cannot pursue the relationship between AGI and filing behavior further. However, it does seem odd that those with unpaid household payroll taxes discovered in an audit, as a group, had the lowest median AGI.

Half of this group had less than $30,066 adjusted gross income on their tax return. They cannot have been hiring very much household help – they would not have had the resources to do so. Therefore, they cannot have owed much payroll tax. Yet they comprise half the returns auditors flagged as evading the tax. Another possibility is that these households have more assets than their AGI indicates; 2001 may simply have been a year of low net income from all sources. Doing some theoretical tax detective work, could we devise a way of turning up households with the means to hire help but perhaps misleadingly low AGIs in the year of audit? To this end, I constructed a new variable, Percent Unearned Income (PUI), to measure the proportion of income on a tax return that is not wage, salary, self-employment, or retirement income. I maintain that this is a less volatile measure of financial security and socioeconomic status than AGI, especially since these data are based on a single year rather than a time series. I requested values for this variable for each of the five audit result groups. The Office of Research kindly calculated values for this variable based on my specifications. My PUI variable measures the proportion of interest and dividend income (as reported on Schedules B and D) to the whole AGI, as reported on Line 37 of the Form 1040. Schedule B reports all interest income regardless of whether or not it is taxable. Going back to the general compliance rate discussion, compliance is highest when there is third-party information reporting, as there is with bank interest. Banks submit year-end interest income information on 1099-B Forms to the IRS. Therefore, we can safely assume a very high accurate reporting rate. The same is true of the dividend income reported on Schedule D. Brokerages report the year-end Form 1099-DIV information to the IRS as well as to their clients.[12]

Although far from perfect, this variable does give us an idea of how much of a household's income came from investment portfolios as opposed to all other sources. When I ranked the groups by PUI (see column three of Table 10), I found that the group paying Schedule H in error had the lowest percentage of PUI. This was also the group with the second lowest median AGI. The group of those who failed to pay Schedule H tax had the second-lowest PUI at 15%. The group of returns with Schedule H overpayments had a PUI of 27%. The group of returns with correct payments had the second highest PUI, 35%. The group with the highest PUI, 42%, turned out to be the households underpaying the tax.

Table 10 Income of Audited Household Employers Grouped by Audit Result, Ranked by Average Percent Unearned Income

Group	Weighted Median AGI	Weighted Mean AGI	Average Percent Unearned Income
Underpayment	$167,457	$537,032	0.42%
Payment Correct	$123,439	$388,147	0.35%
Overpayment	$242,315	$618,837	0.27%
Nonpayment	$30,066	$206,008	0.15%
Payment in Error	$63,893	$118,547	0.00%

What can we make of these results? Those who paid in error ranked second lowest in terms of median AGI and lowest in terms of their percentage of income that was unearned. In other words, the households most motivated to figure out and pay their payroll taxes – to the extent of paying when not even over the threshold to owe the tax – were on the lower end of the socioeconomic spectrum, using AGI and PUI as measures. On the other hand, the nonpayers were also low, having the lowest median AGI and the second-lowest PUI. The most affluent group based on both mean and median AGI consisted of returns with overpayments! Evidently these results will not help us answer the question of whether household payroll tax compliance is associated with affluence or with relative lack of affluence.

The reader may wonder whether the overpayers were overpaying out of scrupulousness, but I believe that their overpayments constituted calculation or comprehension errors; similarly, I believe the underpayers were also either miscalculating or misunderstanding the Schedule H directions. My reasoning is based on the fact that the median overpayment was less than a dollar and so was the median underpayment.

Returning to the overall question of income levels and compliance levels, we see that the data barely allows us to confirm either conjecture. In Section 4.9 we saw weak evidence that relative affluence is associated with Schedule H underpayments and/or nonpayments. In contrast, in Section 4.10 we can see some evidence that relative lack of affluence is associated with Schedule H nonpayments and that affluence is associated with correct payments and overpayments. Based on all that I have learned through examining this aggregate data, I conclude that the NRP audit data indicates that failure to pay household payroll taxes occurs at a greater rate among lower income tiers than higher, as measured by AGI. In other words, at least based on the available IRS audit data, the income effect appears to outweigh the price effect. The interview results in the next chapter did indicate that being pressed for money motivated some otherwise willing taxpayers to skip paying taxes on needed babysitter services early in their careers. One consideration is whether lower AGI indicates not less income but less participation in the formal economy. The lower AGI may be a result of the cash character of some lines of work, such as contracting or the bar and restaurant business. In that case, these lower mean AGIs may be somewhat misleading as to the true income level of these households.

A second consideration is that the IRS may have a bias towards well-executed tax returns; that is, towards returns completed by professional-level people on computers rather than by hand, with evident erasures and math errors. As in grammar school, neatness counts. If this hunch is correct, and I have no evidence to suggest that it is, then the tax returns of the lower AGI families may have come under greater critical scrutiny during the audits than the others. This might have led to a greater detection rate among the lower AGI households. Furthermore, we might expect the higher AGI households to be better able to prepare and defend themselves in the face of IRS auditors.

4.11 Conclusion

Examining IRS data on all of the just over 200,000 returns containing a Schedule H in 2006 allows me to distinguish several important characteristics of this segment of taxpayers. First, most people are paying very small amounts of household wages and therefore owe concomitantly small payroll tax amounts. A majority pay less than $15,000 in household wages. The average household employer tax is $4141, a statistic certainly pulled upward by outlying large tax amounts. Sixty percent are paying tax amounts under $2500, whereas only 4242 households paid more than $25,000 in nanny tax.[13]

Examination of several variables related to the presence of dependents in the home reveals that over half of the returns had no caregiving expenses claimed, which means that the wages were very likely not paid for either children or sick or older people needing care or else that credit would have been taken. I proposed the argument that a taxpayer who is paying payroll taxes properly for an employee would be tax-savvy enough (or be paying for the expertise of someone else who would be) to take that credit. Exemptions for children in the home and indications on the return of the filer's (or filers') age as 65 or over also implied the possible need for caregiving in some but not a majority of the returns.[14]

The 2006 population data also allowed comparison of Schedule H filers to all other taxpayers. As would be expected, they are older and more affluent (65.3% had AGI over $150,000 compared to 5.2% of other taxpayers) and more likely to be married. However, interestingly, although they were four times as likely than the other taxpayers to take the Child and Dependent Care Credit (22.7% compared to 4.8%), less than a quarter did take this credit. Again, this indicates that those household wages are likely paid for work other than caregiving.

The number of returns filed each year continues to drop, but the overall amount of real wages paid per household has risen. This may mean that the level of compensation rose, the number of hours rose, or that the overall number of employees rose relative to the number of households.

This chapter also utilized IRS audit result data. The National Research Program audited returns drawn from year 2001 filings, of which a small subset (452) either paid nanny taxes or should have paid them. Examining the limited data released to me regarding these returns allowed me to draw several conclusions. 70.3% paid correctly, although 7.0% did not pay at all. Another 8.9% paid more than they owed and 4.6% paid despite not owing. It is important to note that the noncompliance rate of 7% for household employment payroll taxes was almost five times higher when expressed as a proportion of additional households required to file as opposed to a proportion of additional dollars collected.

Most importantly, since the IRS gave back in refunds 87% as much money as they collected in underpaid or unpaid nanny taxes, clearly the nature of the calculations and/or the nature of the instructions misled or confused a large proportion of the relevant population. We can only wonder how many people, initially motivated to pay, are stymied by the process of doing so. Given only quantitative data regarding the audits, it is impossible to assess whether confusion, genuine ignorance of the law, laziness, or greed were at work. Investigating the relative importance of these motives is the purpose of the in-depth interviews which are reported and discussed in later chapters.

Based on IRS-calculated weighted population figures, the net dollar amount that would have been collected through the NRP audit process was $1.66 million, or just under two-tenths of one percent (0.19%.) of the total dollars owed. The figure combines underpaid, overpaid, paid-in-error and nonpaid amounts. However, the proportion of dollars collected solely from nonpaid amounts was $12.8 million, or a shortfall of 1.43% of the proper Schedule H tax total. In other words, the news is seven times "worse" when the overall audit results regarding Schedule H are disaggregated; even the small amount of Schedule H noncompliance unearthed by IRS auditors in the NRP study is all but cancelled out by the refunds of overpaid and erroneously paid household employment tax. Of course, these auditors were not specifically looking for household employees paid under the table. Many of the audits were correspondence audits as opposed to face-to-face audits. However, future research must address the low detection rate of Schedule H noncompliance in IRS audits.

This chapter also analyzed the IRS audit data in terms of audit results (overpayer, underpayer, payer in error, correct payer, nonpayer) and examined the AGI levels of these groups. Seventy percent of these taxpayers filed correctly, roughly a tenth overpaid, and roughly a tenth underpaid. More interestingly, seven percent failed to file household employer payroll taxes altogether and about five percent paid these taxes while not needing to – that is, filed in error. The average refund to those who paid by mistake was almost $1000 while the average non-filed nanny tax discovered in the audits – whether unfiled by mistake or conscious tax evasion – was under $600. Those found during audits to have unpaid nanny taxes had the lowest median AGI of all five audit result groups. They also had the second lowest percentage of unearned income (as opposed to interest or dividend income, e.g.). In contrast, those who paid correctly had twice the median AGI and reported an AGI that was composed of 35% unearned income. Although this information raises more questions that it answers, this research does provide a first look into the previously unexamined world of household employment payroll tax payments and nonpayments.

The analysis here is based on the best available government data on household employer payroll taxes, within the limits on its usefulness that IRS privacy and confidentiality demand. Properly, we do not have much information about these returns. The IRS would be derelict to allow us to infer very much about these households. However, as a result of these precautions, conclusions I draw from the NRP data may be of only footnote value in the long run, unless individual-level records become available someday. Given that nonpayment of Schedule H taxes directly affects the future retirement benefits and financial security of hundreds of thousands – if not millions – of domestic workers, many with family members on the other side of the world, that day cannot come soon enough.

Notes

[1] The data underlying all figures and tables in this chapter was extracted and compiled by IRS Office of Research senior economist Kim Bloomquist, whose expertise and generosity enabled me to add this chapter, although all errors are my own.

[2] Recall from Chapter 1 that household employers use Schedule H to report wages paid and employer payroll taxes owed on those wages.

[3] Until 1995, household employers filed quarterly federal payroll tax returns on separate tax forms.

[4] IRS. 2008. Publication 17.

[5] For the sake of exactitude I give the IRS variable names, which do not follow normal capitalization, e.g., “futa_txc”. Variables ending in “c” are usually line items that required taxpayer calculations that have been redone by the IRS computer for the sake of accuracy.

[6] www.irs.gov.

[7] Whereas 12.9% of the filing population is over 65, 37.3% of the Schedule H filers are over 65. Whereas 38.6% of the filing population submitted joint returns, a proxy for being married, 70.3% of the Schedule H filers did so. Whereas only 3.2% of taxpayers have AGI over $150,000, 65.3% of the Schedule H filers do.

[8] I tested the cross-tabulation data for all TY 2006 tax filers for association between the two variables “filed a Schedule H” and “Age 65 and Over”. Chi-square testing showed the association significant at the 0.01 level. As we might expect, testing of the other four Form 1040 variables also confirmed their statistically significant association with Schedule H filing.

[9] As detailed earlier, the CDCC does not phase out completely regardless of affluence. However, the return must provide the worker’s valid Social Security number or Tax Identification Number, meaning those wages will then be on the record for both parties.

[10] For the sake of accuracy, note that these percentages are based not on the raw counts of returns in each category in the sample, but on the IRS’s weighted population estimates for each category.

[11] Median figures are $702 and $344, respectively.

[12] The AGI component of my Percent Unearned Income variable's main limitation is that although much of the wage and salary information is subject to withholding and to information reporting, with its attendant high compliance rate, the self-employment income is not. Schedule Cs, on which sole proprietors report their income, are notoriously misleading. Research demonstrates that unscrutinized income has a much higher tax evasion rate. Underreporting of Schedule C income would therefore cause the AGI of such returns to be inaccurately low and in turn cause the Percent Unearned variable to be too high.

[13] Figures 4.1 – 4.3 illustrated these wage and tax distributions.

[14] One significant problem with this argument is that to take the credit one does need to be working and if married the spouse must work as well, earning at least as much money as was paid out in child/dependent care. Therefore, some households employing a nanny or other caregiver might not file for the credit if the taxpayer(s) was (were) not employed and making at least as much money as the employee.

CHAPTER 5

ESTIMATING HOUSEHOLD EMPLOYER PAYROLL TAX EVASION IN THE U.S. 1996 – 2006

5.1 Introduction

In this chapter I estimate private household payroll tax noncompliance rates for the years 1996 through 2006 by calculating the percentage gaps between Schedule H's filed in a given year and government estimates of private household employment for that year. These represent the very first household employer payroll tax noncompliance estimates. Chapter 1 established that there are no official estimates of household employment payroll tax compliance either by the IRS or by other tax scholars. We need to know how many household workers there are before we can use IRS information to discern how many household employers are dodging their payroll taxes. My estimates are lower bounds only – true evasion rates are likely much higher because official survey data on domestic workers likely suffer from undercounting.

Of the total population of 63 million tax filers in 2006, just over two hundred thousand filed Schedule H with their income tax return, down from over three hundred thousand in 1996. Aren't there more than 200,000 household employees, especially since taxes are owed on any part-time employee earning over $1700 per year? Has the private household industry really shrunk by a third in just eleven years? Not according to government figures on household employment. Despite between-survey differences, all data sources indicate that a good deal of tax evasion is going on.

Most employment data surveys omit private household workers because they are establishment-based rather than household-based surveys, meaning that researchers contact business establishments, i.e., firms, factories, and companies, to ask about their workers as opposed to contacting individuals at home to ask about their jobs. Since the private household industry – labeled 814100 in the industry classification system – by definition has only private households as workplaces, no workplace-based survey will pick up these private household workers. The following major sources of employment statistics have no data on industry 814100: the Occupational Employment Statistics (OES), the National Compensation Survey (NCS), and the Current Employment Statistics (CES)[1].

The Census, the American Community Survey (ACS), and the Current Population Survey (CPS) are the only surveys that identify true household employees: those who work directly for households (as opposed to agencies). Even the Bureau of Labor Statistics must rely exclusively on CPS data in constructing its estimates of industry 814100 for both the Household Data Annual Averages (HDAA) and the National Employment Matrix (NEM)[2]. The 2000 Census is out of date. The HDAA data is based on the relatively small sample size of the CPS. However, I have chosen to take the data at face-value and to report estimates from each of the three data sources to calculate compliance estimates.

5.2 Government Figures on Household Workers

5.2.1 The 2000 Census

The first of the three sources of private household worker estimates is the Census, which surveys every possible household every ten years. Nineteen million receive the "long" form; the rest complete the short form. Only the long form covers employment information in detail great enough to provide household worker data. As a result, labor figures based on Census data are sample data, but the sample is quite large. *Note that at the finest level of detail, "private household" is considered an industry – industry 814100 – so we can find a figure for individuals who work directly for a household, rather than for a housecleaning company or home health agency, e.g.* The Census estimated just under six hundred thousand private household workers in 2000 (see Table 12). Household workers made up 0.6% of the total working population. Of these, 90.9% were female. 64.7% listed a race or ethnicity other than white.[3]

Table 11 Census Estimates of Household Workers, 2000.

	Female		**Male**		**Total**	
All	526,817	100.0%	52,737	100.0%	579,554	100.0%
White	339,768	64.5%	35,358	67.0%	375,126	64.7%
African American	79,671	15.1%	7,232	13.7%	86,903	15.0%
Hispanic or Latino	151,909	28.8%	12,063	22.9%	163,972	28.3%
Asian	18,716	3.6%	2,748	5.2%	21,464	3.7%

5.2.2 American Community Survey Data

The second government data source for private household employment estimates is the Census Bureau's American Community Survey, a mini-Census to bridge the gap between decennial Census surveys. It covers about three million households. Like the Census, the ACS provides industry detail down to the six-digit level which enables it to report information on employment in the private household industry. In 2007, the ACS estimated 794,836 household workers, representing 0.6% of the 143 million workers overall. Table 13 shows figures for the years 2004 through 2007.

Table 12: American Community Survey Estimates of Household Workers, 2004-2007.

	Female		**Male**		**Total**
2004	682,385	92.7%	53,835	7.3%	736,220
2005	666,297	90.9%	67,103	9.1%	733,400
2006	727,705	90.6%	75,497	9.4%	803,202
2007	724,620	91.2%	70,216	8.8%	794,836

5.2.3 Household Data Annual Averages

The third source of data is the Household Data Annual Averages (HDAA). The Bureau of Labor Statistics compiles these tables from its own above-mentioned surveys as well as from the Census Bureau's CPS. Because none of the Bureau's surveys include household workers, the compilation of private household industry worker estimates relies almost entirely on CPS data. A limitation of the CPS, of course, is that it includes only 50,000 households in rolling monthly surveys. Both Bureaus are aware of and generate scholarship on the discrepancies between establishment-based and household based surveys. The factors which seem to account for differences include different universes, definitions, controls, and analytic methodologies. As well, surveys may differently reflect the impacts of real-world events such as increases in immigration, overall population growth, and periods of substantial economic growth or contraction (Bowler, Kirkland, Kropf, Nardone, and Wetrogan, 2003).

The HDAA has estimates for household workers both by industry and by class of worker. The figures drawn from HDAA's "Employed persons by sex, occupation, class of worker, and full- or part-time status, and race" categorize employed individuals as belonging to one of five "classes" of worker (see Table 15, column three). The five classes of worker include private enterprise workers, nonprofit organization workers, government workers, self-employed workers, and household workers. A discussion of the changes in these categories through time is outside the scope of this project, but would be very fruitful because these changes reflect changes in American attitudes towards race and towards social class. The Census Bureau, not the BLS, collects the class of worker information. In the earlier part of the period, the estimate fluctuates quite a bit, bouncing between the low eight hundred thousands and the mid-nine hundred thousands. The average for the period is 841,000. Current and prior year figures are reported annually. After analyzing all available year pairs, I calculated that the correction is always a downward correction, has an average value of 9000, and moves in a three-year cycle.

The figures drawn from HDAA's "Employed persons by detailed industry, sex, race, and Hispanic or Latino ethnicity" report the estimate of workers for each *industry* (see Table 15, column four). These by-industry numbers are available for the years 1995 though 2007. Over this 13 year period, according to the HDAA data, the number of household workers declined.

Table 15 and Figure 9 present a collection of all available official estimates of private household employment. The three sources are the 2000 Census, the ACS, the HDAA class-of-worker statistics, and the HDAA by-industry statistics. Observe how the two HDAA numbers converge in 2003 and remain identical. Taking the Census and the ACS figures together, household employment seems to be rising. Taking the two HDAA series together, household employment seems to be falling. Despite the clear differences in levels and direction of trend, we shall see in Section 5.4 that the filing of nanny tax returns never reaches even half of the level of household employment. Therefore, regardless of which survey or which year is taken as a benchmark, a large amount of nanny tax noncompliance can be calculated.

Table 13: Comparison of Household Worker Estimates from Census, American Community Survey, Household Data Annual Averages by-industry, and Household Data Annual Averages by-worker-class data, 1995-2007.

	2000 Census	**ACS**	**HDAA: Class of Worker**	**HDAA: Industry**
Year				
1995			821,000	971,000
1996			928,000	936,000
1997			795,000	921,000
1998			962,000	967,000
1999			933,000	940,000
2000	579,554		792,000	894,000
2001			803,000	816,000
2002			829,000	844,000
2003			764,000	764,000
2004		736,220	779,000	779,000
2005		733,400	812,000	812,000
2006		803,202	803,000	803,000
2007		794,836	813,000	813,000

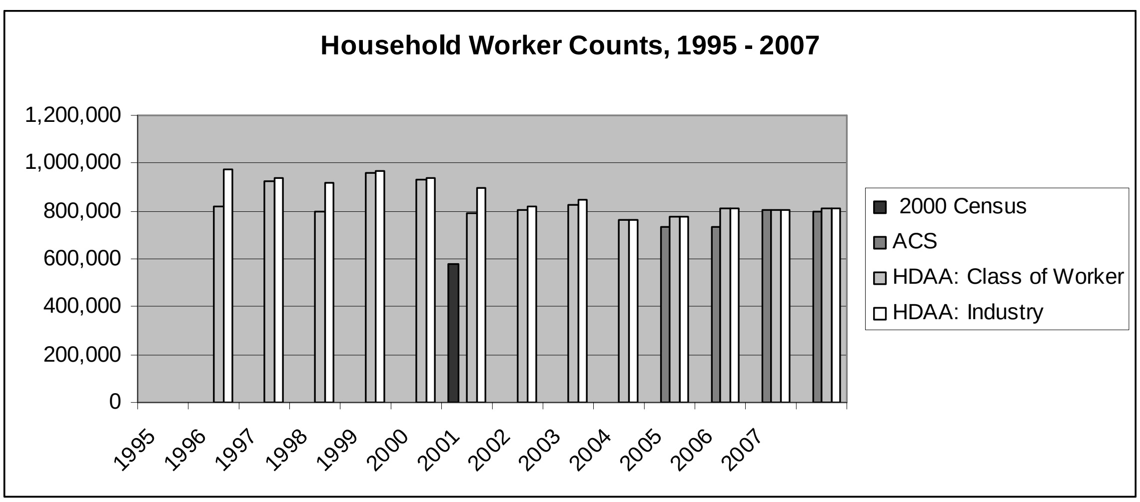

Figure 9: Comparison of Household Worker Estimates from Census, American Community Survey, Household Data Annual Averages by-industry, and Household Data Annual Averages by-worker-class, 1995-2007.

5.3 Race and Gender Composition of Private Household Employment Figures

This section provides a brief look at race and gender composition of the private household industry based on HDAA data and Census data, which, unlike the ACS, has racial composition information specifically for the private household industry.[4] In Table 16 we see that most workers in private households are women. The gender composition of the private household industry does not change much between the 2000 Census (91% female) and the 2007 ACS (91.2% female), and the latest available 2007 HDAA estimate (90.7% female).

Table 14: Household Data Annual Averages Data on Racial and Gender Composition of the Private Household Industry, 2007.

All Household Workers	813,000	100%
Female	737,000	91.7%
Male	76,000	9.3%
White	635,000	78.1%
Black or African American	97,000	11.9%
Asian	27,000	3.3%
Other[5]	54,000	6.7%

However, in the 2000 Census figures, non-whites account for 64.7% of private household industry workers, while in these HDAA figures, non-whites account for only 21.9% of workers in this industry. I would argue that it is unlikely that non-white household workers *fell* from two thirds to a fifth of the household workforce between 2000 and 2007! This discrepancy raises some doubts about the representativeness of the HDAA data; or, points to a difference in assignment of occupations to the service sector between BLS and Census Bureau practice of which this researcher is unaware. That is to say, if the 2007 HDAA data pegs non-white household workers at only 21.9% while the Census seven years earlier pegged that statistic at 64.7%, then perhaps the HDAA data are not reliable estimates of the private household industry, which has an anecdotally large non-white component. One possible explanation for this discrepancy is that the HDAA data on household workers is not based on a sufficiently ethnically representative sample. Perhaps undocumented workers are such a large a proportion of household workers that their increasing reluctance to participate in government surveys during this decade caused these figures to skew white.

To sum up, workers in the private household industry are over 90% female and 65% non-white, according to 2000 Census figures. These are certainly the most reliable data due to the large Census sample size. ACS and HDAA data for 2007 confirm that the proportion female continues to top 90%.

5.4 Calculating the Compliance Rate

I now compare Census Bureau and BLS data on workers employed by private households with IRS counts of household payroll tax returns in order to estimate household employer tax compliance. To derive compliance estimates, I combine the Census and BLS estimates of household workers just discussed with IRS data on number of household payroll tax returns filed that year. That is, the gap between tallies of household workers and the IRS count of households paying household employment payroll taxes is a rough estimate of how many noncompliant household employers there were in that year. I use these estimates for the years 1996 – 2006 to derive the percent of household employers failing to file payroll taxes. At the very least, this work establishes an evidence-based lower bound for estimates of this kind of tax evasion.

The noncompliance, or evasion, rate for a given year is simply the ratio of the gap between the number of returns that should have been filed (based on government estimates of private household workers for that year) and the number of returns that were filed (counted by the IRS).[6] We have eleven years of data for the number of returns actually filed: the IRS counts of returns which include a Schedule H, 1996 through 2006. Remember, across the eleven year period 1996 – 2006, Schedule H returns declined in each year, reaching just over two hundred thousand, a decline of 35%. The true number of households who owe nanny taxes is unknown. However, Chapter 4 above presented several government estimates of the number of household employees. There is Census data for 2000, ACS data for 2004 – 2006, and HDAA data to match all eleven years of the available IRS data. We have discussed the wide between-survey variation in official government household worker estimates. This naturally affects our noncompliance estimates. However, regardless of year or survey, the count of household payroll tax returns is never more than half and sometimes only one quarter as large as the estimate of household employees. For example, in 2000, Schedule H's numbered 268,055, yet the Census counted 579,554 household workers, leaving a difference of 311,499. This represents a noncompliance rate of 53.7%. Turning to the American Community Survey data, in 2004, we have an estimate of 736,220 workers, the IRS Schedule H count was 224,265, for a difference of 511,955. This produces a noncompliance rate of 69.5%. Based on ACS data, the next two years, 2005 and 2006, had noncompliance rates of 70.2% and 74.2%, respectively. Finally, let us look at noncompliance rates based on the HDAA by-industry estimates of private household workers. From 1996 to 2006, the HDAA estimate moved from 936,000 to 803,000 with a high of 967,000 in 1998 and a low of 764,000 in 2003. Nonetheless, when we calculate the household employer noncompliance rates based on these eleven years of data, they climb fairly steadily from a low of 66.0% in 1997 to a high of 74.2% in 2006.

Finally, I averaged the three years of ACS data (2004-2006) and averaged the corresponding three years of IRS data in order to calculate a noncompliance rate based on all available ACS data. The result is an overall noncompliance rate of 71.3% for that period. I also performed the same calculation for all eleven years of HDAA data and the corresponding eleven years of IRS data, finding an overall 70.0% noncompliance rate for that period. I maintain that these two figures are better estimates of the true current noncompliance rate than the 53.7% rate based on Census data for 2000, given that both surveys contain data more recent than the 2000 Census.

These calculations are based on government estimates of private household industry employment and are therefore estimates themselves. Given that many demographers consider government survey estimates to be biased downward by the persistence of undercounting, it is reasonable to presume that these noncompliance estimates are also biased downward. Therefore, these results should be considered as reasonable lower bound estimates of household employer payroll tax noncompliance.

The reader might counter with the objection that some household employers have multiple employees and therefore the number of employees is rightly greater than the number of returns and causes the appearance of noncompliance. There is no way of knowing how many Schedule H returns are for multiple household employees, but we saw earlier in this chapter that affluent households with large household labor bills are in the extreme minority. Recall from earlier in the chapter the low average amounts of Schedule H tax. Recall as well the very right-skewed shape of the distribution of tax amounts paid. Based on available information, I am convinced that the number of multiple-employee returns is small enough relative to the whole that one worker per household is a plausible assumption after all.

Furthermore, some employees may have multiple employers. Anecdotally, we know many employees work part-time for multiple employers. However, given the paucity of data on private household employment, there is no way to gauge how many employees have multiple nanny tax compliant employers. At any rate, relaxing the assumption that each employee has only employer filing taxes on them would make my estimates of nanny tax evasion even more conservative.

Many scholars have found evidence that government employment survey data are dogged by undercounting, even after implementing good-faith efforts to compensate for it. Causes and motivations abound (Nguyen, 2004; 2007). Undercounting bias is stronger in counts of African Americans and Hispanics than in counts of whites; undercounting bias has also intensified overall between 1985 and 2006 (Schmitt and Baker, 2006). To the extent that individuals are complicit in their own undercounting by dodging or misrepresenting, this residual undercounting may be more likely to occur when either party to the employment relationship has something to hide, such as working under the table or immigration status. Informal estimates by those who organize domestic workers and by those who make a living helping household employers file their payroll taxes suggest that government statistics understate household employment substantially. In 2003, Ai-Jen Poo of Domestic Workers United estimated 600,000 such workers in the New York metropolitan area alone (Middlekauff, 2003). In 2008, Angelica Sala of CHIRLA (La Coalición Pro Derechos Humanos del Inmigrante en Los Ángeles) estimated 900,000 domestic workers in the LA metropolitan area (Crary, 2008). These city-based estimates imply a national domestic worker population in the millions. Off the record, an executive with a prominent nanny tax agency estimated national domestic employment at ten million.

If we consider the possibility of survey undercounts, the numerator (the number of returns filed in 2006) remains the same while the denominator (the number of actual household workers) would be larger. Hence the noncompliance rate would rise. The final section of Table 18 calculates noncompliance estimates for hypothetical levels of household employment for 2006.[7] See Figure 10 for a graphical comparison of the number of Schedule H's filed in each year (white bar) with any of the three government survey estimates of employment in the private household industry (Census, ACS and HDAA). Some years have data from only one survey. The year 2000 has all three. Examination of this graph provides a clear picture of nanny tax noncompliance.

As discussed earlier, the government estimates of household employees – all under one million – may well be undercounts. The table shows that if there were in fact one million household workers in 2006 then (given the 207,111 Schedule H returns) the true noncompliance rate would have been 79.3%. If there were three million household workers in 2006, the true noncompliance rate would have been over ninety percent. These speculations notwithstanding, more research is certainly needed to capture the size of the domestic worker population, especially the undocumented domestic worker population.

Table 15 Calculation of Household Payroll Tax Noncompliance Rates, based on Household Data Annual Averages, 2000 Census, and American Community Survey Estimates of Private Household Employment.

Year	Number of Workers: HDAA (by Industry)	Schedule H Returns	Difference	Noncompliance Rate
1996	936,000	317,010	618,990	66.1%
1997	921,000	313,360	607,640	66.0%
1998	967,000	297,851	669,149	69.2%
1999	940,000	280,460	659,540	70.2%
2000	894,000	268,055	625,945	70.0%
2001	816,000	253,810	562,190	68.9%
2002	844,000	242,185	601,815	71.3%
2003	764,000	230,632	533,368	69.8%
2004	779,000	224,265	554,735	71.2%
2005	812,000	218,712	593,288	73.1%
2006	803,000	207,111	595,889	74.2%
Year	**Number of Workers: 2000 Census**	**Schedule H Returns**	**Difference**	**Noncompliance Rate**
2000	579,554	268,055	311,499	53.7%
Year	**Number of Workers: ACS**	**Schedule H Returns**	**Difference**	**Noncompliance Rate**
2004	736,220	224,265	511,955	69.5%
2005	733,400	218,712	514,688	70.2%
2006	803,202	207,111	596,091	74.2%
Year	**Number of Workers: Hypothetical**	**Schedule H Returns**	**Difference**	**Noncompliance Rate**
2006	1,000,000	207,111	792,889	79.3%
2006	2,000,000	207,111	1,792,889	89.6%
2006	3,000,000	207,111	2,792,889	93.1%
2006	4,000,000	207,111	3,792,889	94.8%
2006	5,000,000	207,111	4,792,889	95.9%
2006	6,000,000	207,111	5,792,889	96.5%

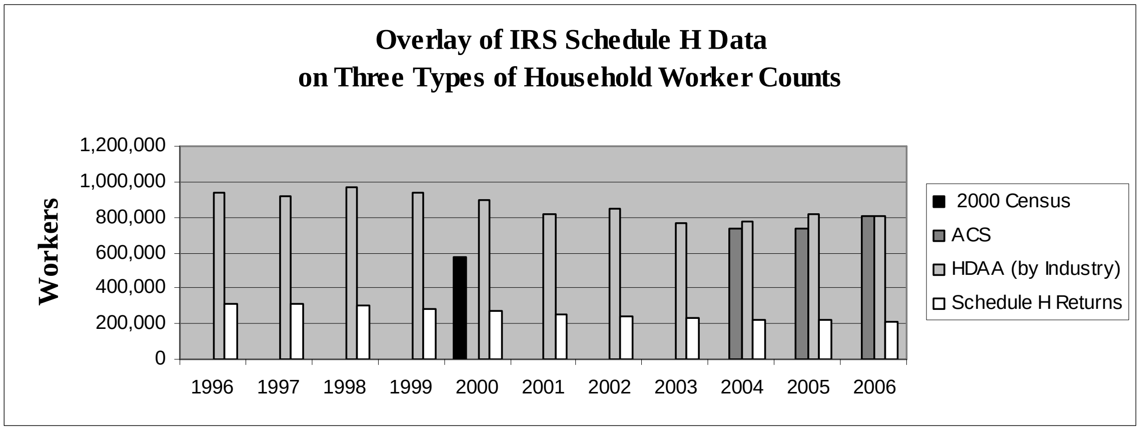

Figure 10: Overlay of IRS Schedule H Data on Household Worker Estimates

5.5 Conclusion

In this chapter, I have brought together IRS data on household payroll tax returns and private household employment estimates to calculate noncompliance rates for individual years. These estimates are lower bounds for household employment payroll tax noncompliance rates because noncompliance is almost certainly much higher, given the issues of sample representativeness and undercounting of domestic workers. Within the eleven years for which we have federal tax data, arguably the most accurate estimate of household employment was the 2000 Census, given its large sample size of one-in-six U.S. households.[8] Using that figure, the evasion rate estimate for that year is 53.7%. However, in the most recent year for which I have data, 2006, the American Community Survey estimated just over 800,000 household workers, yet the IRS counted only 200 thousand nanny tax returns (Schedule Hs), indicating a noncompliance rate of 74.2%. Based on the analysis in this chapter, I am confident in my conclusion that no fewer than three-quarters of all household employers are currently failing to pay their nanny taxes.

Anecdotally, taxpayers are aware of widespread nanny tax evasion through news reports and the lack of social norms regarding payment of this tax. This estimate of noncompliance with household employer payroll taxes is the first of its kind. The value of the benefits lost to employees in retirement through nonpayment of Social Security, Medicare, and unemployment payroll taxes is huge, scandalous, and remarkably unnoticed. Furthermore, given the ordinarily high compliance rate with individual income taxes, this level of noncompliance is an aberration. It demands further investigation because complexity and social norms play such a large role in deterring compliance. The next chapter presents the results of in-depth interviews with household employers and employees.

Notes

[1] The Quarterly Census of Employed Workers (QCEW) would seem to be a viable source of household worker data, as it is not a survey but rather an aggregation of data collected at the local level based on the payroll taxes and unemployment and workers' compensation taxes paid by about ten million business establishments, that is, on the over 100 million jobs covered by unemployment insurance law, as well as almost thirty million local, state, and federal government jobs. However, the QCEW specifically excludes farm jobs, unpaid family workers, certain railroad workers, the self-employed, and those employed by private households.

[2] Chapter 1 presented detailed information from the NEM in order to convey the proportions of employees doing various occupations within the private household industry. Tables 3 through 6 in Chapter 1 present an occupational outline of the industry based on the 2006 NEM. See pp. 21-28.

[3] Census table PCT85 "Sex by Industry for the Civilian Population 16 Years and Over."

[4] The aggregate employment figure for all service occupations in all industry sectors is just over 24 million. 714,000 of the private household industry workers are in service occupations. Therefore, about 3 percent of all service workers are employed in private households.

[5] BLS Household Data Annual Averages tables at this level of industry detail do not provide information on Hispanic workers. I calculated and labelled the difference between identified categories and total workers as "Other."

[6] Tax research customarily phrases results in terms of compliance rather than noncompliance or evasion; of course, subtracting the compliance rate from one yields the evasion or noncompliance rate.

[7] I use 2006 because it is the most recent year of IRS Schedule H data.

[8] Recall that only the long Census form asks for detailed employment information; this form goes to about 15% of households.

CHAPTER 6

DESCRIPTION OF INTERVIEW RESULTS

6.1 Introduction

This chapter presents and discusses, in thematic style, the interview research results of an exploratory study of household employment and payroll tax compliance. The sixty study participants, thirty household employers and thirty Filipina household employees, lived in the Washington, DC area. The experiences, attitudes, perceptions, and insights of these two sample groups were collected during the academic year 2007-2008. Because the research was limited and exploratory in nature, it should not be considered representative of all household payroll tax compliance experiences. The following research questions guided the collection of data:

(1.) Why do so few people pay nanny taxes? Is the economic model adequate to explain nanny tax compliance behavior? If not, in what ways does it need to be extended?

(2.) When some people do pay, what is motivating them? What barriers do they face? How do they overcome those barriers?

(3.) Do men and women exhibit different compliance behavior? Are the determinants of their compliance different? Do spouses agree and what happens if they do not?

(4.) How do employer identities and attitudes shape the economic decision to pay taxes on a household employee? Is class background a factor?

(5.) How much does the employee affect the employer's decision? What can we learn from employees' lived experiences as domestic workers about the payroll compliance decision-making process?

Documentation and discussion of the employer interview results follows a description of the sixty study participants. A shorter section concerning the smaller corpus of nanny interview results concludes the chapter.

6.2 Description of Interview Subjects

6.2.1 Employer Sample

Employers were recruited through a network of personal and professional contacts; each subject lived for at least part of the year in an affluent section of Washington, DC. (See Chapter 3 for details regarding methodology.) The average age of the employers was 51.5, with a range of 25 to 71. Of thirty participants, 22 were female and 8 were male. Twenty-eight had at least one child, with an average of 1.9 children and a range of 0 to 9. At the time of the interview, 24 were married or lived with a domestic partner; 4 were divorced, 1 was widowed, and 1 was single. Three husband and wife pairs were interviewed as part of this study. That is, six individuals were married to another participant in the study.

Of the 30 employers interviewed, 23 were working professionals, 3 were homemakers, and 3 were retired, and 1 was a student. Their professions included attorney, journalist, scientist, artist, doctor, investor, writer, business executive, federal worker, and political consultant.

The study participants ranged in highest degree earned from high school to doctoral degree. 1 had no college experience, 2 had some college experience, 8 had college degrees, 3 had some graduate school experience, and 16 had at least one graduate or professional degree. Thirteen of the interview subjects had an Adjusted Gross Income of over $150,000, ten had an AGI between $100,000 and $150,000, seven had an AGI below $100,000, and three declined to give an estimate.

A rough measure of percentage income unearned divided the study participants into less than one third unearned, between one third and two thirds unearned, and over two thirds of income unearned. Participants were asked to consider their total yearly income; then, they were asked to consider how large a part of that income came from wages, self-employment and retirement benefits, (including Social Security), as opposed to income from interest, dividends, and other assets. They were asked to estimate whether the unearned income formed less than a third of their income, more than a third, or somewhere in between. This measure is crude, but successfully separates those who live primarily on their earnings from those who live primarily on non-work-related income. 19 employers had less than a third of their income as unearned income; 3 employers estimated their unearned income to be between one and two thirds of their total income; 5 employers stated that unearned income made up over two thirds of their annual income.

Of the 30 participants, 12 grew up in families which employed at least one full-time household worker (as opposed to, e.g., “growing up with a weekly cleaning lady”). 18 grew up in families which did not have a full-time employee. As employers themselves, they had employed an average of 3.1 employees, with a range from 1 to 6. Overall, they reported 93 specific instances or episodes of household employment.

6.2.2 Description of Employee Sample

The thirty subjects in the sample were all working as nannies, housekeepers, or both. Many women were expected to perform housework concomitantly while holding the job title of nanny. All of the women self-identified as nannies rather than housekeepers. Many moved between the two types of employment, with nanny the preferred type. Some held two or more part-time jobs while looking for full-time employment. None were undocumented workers.

The thirty nannies in the sample were all from the Philippines and, unlike the employers, were all recruited through snowball sampling. Again, unlike the employers, they were all members of a loosely formed social network, which functioned both as a social unit and as an informal “union” in the sense that their group norms and their communications network enabled them to keep most job openings filled from within and enabled them to have knowledge of current wage norms.

They ranged in age from 31 to 71, with an average of 51.5 years old. On average, they had been in the United States for 13.6 years, with a range of from 6 to 29 years. 19 were married, 9 were single, 1 was widowed, and 1 was separated. Of the 20 who were still married, 10 had left their husband in the Philippines and 10 had been joined by, or had married, a husband in this country. Twenty had at least one child, with an average of 2.3 children, and a range from 0 to 7. Of the 20 who had children, only 3 had been able to bring any children over to join them.

The nannies were here in the United States an average of 6.4 years before getting their green cards, with a range of 0 to 20 years. At the time of the interviews, they had been here for 4 to 14 years, with an average of 7.9. All were currently legal to work in the U.S. These domestic workers had ordinarily entered the U.S. legally on temporary visas; several were brought with Filipino diplomatic families. Holding expired visas, they were then faced with the impossibility of visiting their families back home and being able to reenter the U.S.

Their average hourly wage was $16, with a range of from $8.75 to $22.50. They worked an average of 42.4 hours per week. The nannies interviewed had an average of 7.5 dependents at home, that is, people receiving most of their support from the nanny's remittances. A third of the nannies had ten or more, although the range was from none to twenty. The dependents consisted not only of children, grandchildren and parents, but also of nieces, nephews, and their children.

On average, nannies reported sending these remittances 12.1 times per year, with most nannies sending money once a month. Only 4 of the 30 sent money less often than monthly. They reported sending amounts ranging from a low of $150 three times a year to a high of $2200 every month. The average remittance reported, normalized to a month, was $545. When calculated for each individual, these remittances represented an average of 20% of earnings, with a low of 5 percent and a high of 64 percent. Ten nannies lived in the District of Columbia, 14 lived in Maryland, and 6 in Virginia. Of the thirty interviewed, 28 were renters.

6.3 Employer Results

From the thirty employer interviews, I identified three salient issues: detection probability, barriers to compliance, and the fact that the workplace was a private household as opposed to an office or store, for example.

6.3.1 Category 1: The Odds of Getting Caught

Concern with detection probability in connection with the employer's job was the most important reason given for paying nanny taxes. Both employers and nannies laid emphasis on this in the interviews, that people are strongly motivated by the prospect of being caught insofar as it relates to their careers. This was true not only of employers' current positions, but of their future career prospects as well.

"All of our friends at the [World] Bank have to."

"You never know what your next job is going to be."

"Since [her friend's husband] worked in the White House, we both had to pay."[1]

The following two quotations are from nannies:

"She had to. Her husband worked for the government."

"That employer, the husband is working at the IRS."

In contrast, employers without a current or prospective career that could be jeopardized by nonpayment of nanny taxes were *not* motivated by the possibility of being caught. None of the thirty interview subjects gave concern about being caught as a reason for noncompliance unless they were specifically discussing job security or career prospects. In other words, fear of the detection of tax evasion was raised only in the context of an employer being vulnerable to losing a job or failing to gain a desired job in the future.

No respondent had had nor had they even heard of an instance in which a household employer had experienced such a detection, let alone any negative consequences arising from that situation. In fact, several employers made specific references to the fact that their retirement meant freedom from filing nanny taxes. The following excerpts illustrate this:

> "But of course I'm retired now, so all that is irrelevant for us."
>
> "I stopped doing all that [nanny taxes] the minute I retired from being the [high-visibility elected position]"

The vulnerability of an employer to the consequences of a case of discovered tax evasion was a recurring theme in the interviews. Most of the employers raised the subject, either in reference to themselves when relevant or in reference to their peers' experiences when it was not. In addition, in explaining why some employers do pay nanny taxes, nannies gave the nature of the employer's job as the most important factor.

Interestingly, detection probability – one of the four key determinants in traditional economic theory on tax compliance – was never a motivator, unless detection would specifically threaten the employer's job security or career prospects. The interviewees demonstrated a lack of concern about detection in the absence of any career vulnerability.

6.3.2 Category 2: Ignorance and Complexity - the Biggest Barriers to Compliance

As discussed in Chapter 1, it is thought that nanny tax compliant household employers represent well under ten percent of the population of actual household employers. Much of the gap is due to simple lack of awareness that they do owe taxes.[2] Many household employers interviewed did not realize that they owed household employment taxes at all. They viewed the arrangements with their employees as informal, contingent, and temporary. They did not know that the requirement to file household employment taxes began at under two thousand dollars of wages paid. Several such misconceptions emerged in the interviews. Some employers incorrectly thought that they owed no tax when employees work for others as well; that accountants would alert them if they owed; and that giving a1099 form (independent contractor form) to a household employee at year's end was a viable alternative to paying nanny taxes.

Any individual who pays $1600 or more in a year to any one household employee must pay household employer payroll tax by filing a Schedule H with their regular annual individual income tax return. In fact, as explained in Chapter 1, $133 per month, $62 every other week, or $31 per week is enough to trigger liability. The following excerpts on the topic of owing household employment taxes demonstrate the ignorance among employers:

> "Not even on the radar screen."

> "I had no idea about any of this until I met you [the interviewer]."

> "I'm sure if I had a full-time employee I'd start to worry about it, but no, not with just a part-time employee. But sure, if I had someone who was my employee in actuality, then I'd find out how to do it."

> "You have *got* to be kidding me. This is a lawn guy we're talking about!"

> "But she only comes for a very few hours a week right now. We only go out once a week, so we don't do any of that for her. "

> "For the first two nannies, I didn't know about it [the nanny taxes], which is strange when I think about it, because the woman I was sharing this nanny with was an immigration attorney, and you'd think if anyone were going to be up on this, an attorney working with immigrants would be, but no."

Employers also said that their tax professional would certainly have told them if they were supposed to have been paying nanny taxes all these years. Many interview subjects were at pains to establish that being tax compliant was important to them, that they would have been paying nanny taxes if they had owed them. In other words, some were surprised to hear (as well as reluctant to believe) the filing requirement information presented in the course of the interview. The myth of the maid-as-independent-contractor is one more of these points of ignorance. Recall the discussion in Chapter 1 about the strict and little-known definition of who is a household employee. To review, the federal guideline from the IRS Household Employers' Handbook is

> "You have a household employee if you hired someone to do household work and that worker is your employee. *The worker is your employee if you can control not only what work is done, but how it is done*….If only the worker can control how the work is done, the worker is not your employee but is self-employed (p. 2)." (Italics mine)

An excerpt from the Virginia Employment Commission's Employer Handbook backs this up: unless the worker under discussion is "engaged in an independently established trade, occupation, profession, or business," they are not an independent contractor but rather a household employee. In addition, the fact that an employee may have more than one household employer does not make them an independent contractor either. The following excerpts illustrate this how employers misunderstand these points:

> "I would definitely have been paying them [household employment taxes] all along, if my accountant even mentioned it to me once. He knows everything about me, he has all my checks, I would know from him if there was anything I was supposed to do about this."

> "There are about a hundred tax guys [tax attorneys] in our firm and I've never heard anything about this [that nanny taxes are owed at the $1500 threshold and owed for yard work]."

> "Well, it's just a very informal arrangement. There's no contract or commitment. Either of us could just stop doing it [the employment arrangement] any time we wanted – next week!"

The following words were from an accountant, a non-study participant, whose clients are affluent and usually have individuals working in their homes. This is an example of incorrect information on the part of a tax advisor.

> "Well the first thing to do is establish if they really *have* a household employee. If that individual works for anyone else besides yourself then they're not your employee. They're an independent contractor and all you owe them is a 1099, which you definitely should do because if the employee doesn't file their taxes, the IRS can come to you looking for it."

Study participants also found it difficult to learn how to file even when they wanted to. They described a steep learning curve regarding how to calculate and properly withhold the income tax from their employee's paycheck. Although some understood that they were responsible for paying household employment payroll taxes as a line item on their annual federal income tax return, they were surprised to learn about state income tax and state unemployment tax laws, especially when the worker lived in one jurisdiction and worked in a second one. They did not find it easy to obtain either the federal or the state employer identification numbers, which are needed at the outset. When employers described their levels of comprehension, they often simultaneously referred to the difficulties of performing the actions required as a significant barrier despite their reasonable efforts. Participants referred to the complexity of beginning to file as a separate issue from the complexity of keeping up with the ongoing process.

> "I think my lowest point [during the registration process] was when the state website demanded that I select the best description of the nature of my business for which I had employees. Because I didn't know anything about being on the hook for these unemployment taxes, I was really quite nervous and had a lot of misgivings about registering as a business owner. I finally selected 'domestic services provider' as the best description of my household, but I still remember how stupid they were."

> "You need a college education just to understand what they're asking you to do – no, wait, I *have* a college education and I couldn't do it. You need a math or accounting degree!"

> "Getting started was very hard. I'm a journalist. I find things out for a living and explain them to others. It was a real challenge, especially because I had just had a baby, I'm a single mom, and I was going back to work – I was in a fog."

> "I'm all about doing the right thing – and we just couldn't do it. It was too hard. The irony is – right – the whole reason we're in this position [of needing to pay nanny taxes for multiple simultaneous employees for their two disabled children] is because we're overwhelmed and need the relief. It's hard enough just trying to *make* the money to pay for the caretakers we need."

> "At the time my son was born, my husband had just gotten very ill. He had cancer. And we were told to go to [medical center] for six weeks. The new nanny and the details of her employment were the least of our concerns. So, no, we never got started [doing payroll taxes]."

Finally, several times it became clear during an interview (both to me and to the interview subject) that he or she was not meeting all tax requirements, despite thinking that everything was properly paid. Ignorance of the full scope of the requirements was the cause. The first quotation is from an employer who was omitting state taxes and the second is from one who was omitting federal taxes:

> "Oh, really…no, know I don't think we do that [state unemployment taxes]. We don't do anything quarterly."

> "I pay her DC unemployment taxes quarterly and do her withholding and quarterly estimated tax for DC, but I don't know anything about this Schedule H you're talking about. I've never heard of that."

The IRS estimates the time necessary to comply with different tax requirements, broken down into time required for learning about the law, recordkeeping, and filling out the form. For Schedule H, the estimates are: "Recordkeeping, 1 hr. 38 min; Learning about the law or the form, 30 min; Preparing the form, 54 min; Copying, assembly, and sending the form to the IRS, 34 min." "2007 Forms and Instructions for Household Employers." These estimates are laughable. Consider weekly employer recordkeeping for salary and withholding, just at the federal level, for fifty-two weeks. According to this estimate, it would take under two minutes a week, including time spent adjusting exemptions and recalculations whenever hours or wages changed. Time spent per week on tax matters was not one of my interview questions, nor do I have quantitative time use data from employers. However, time spent was one of the favorite topics in the interviews. Keeping up with nanny taxes is a burden. Participants related frustration and resentment about the ongoing process. In particular, they complained about the time and energy consumed by it, or the money spent to outsource it.

> "I never failed to appreciate the irony of not being able at times to spend time with my daughter or my husband because of a pressing nanny tax demand. I hated it. It made me resent our nanny. It seemed I'd no more than get one squared away, sometimes overdue ones, when the next quarterly deadline would be upon us."

> "I don't spend any time at all on it. It's all done by [Houston company] but we pay dearly for being able to forget about it."

> "When I moved out of my house to [her new residential community] I took over all of the taxes from my accountant because I finally had the time to apply myself and figure out how to do it. It was awful, but I do it all now, I'm quite proud of myself."

Disputing taxes owed with the IRS and with state tax agencies represents another feature of ongoing compliance. Employers also described seemingly adversarial and tenacious bureaucratic hassles. About half of the household employers who had any experience with nanny taxes described one or more incidents of this nature. The following excerpts illustrate this point:

> "Those bastards. I hope they rot in hell."

> "When my husband was taking care of an elderly aunt, he had some terrible times with the nanny taxes… at the federal level. The correspondence went back and forth for years. It soured us on the whole thing [nanny taxes]."

> "The worst part was the unemployment people. I was always getting something in the mail from them disputing the amount owed and I had so many responsibilities at the time."

On the other hand, a common thread was the ease of handling nanny taxes when there was a third party wholly responsible for all aspects of compliance. To be clear, this is not the same thing as having an accountant. A majority of those with an accountant still reported effort and difficulty.

> "There's an online service we found through a friend. They do all of it for you. It's hundreds of dollars a year, but they even cut her paychecks."

> "I never really had to think about it because [name of nanny share employer] did all of it. I just gave her however much money she asked us for."

> "I sent an email to all my friends who work and have small children basically asking them, 'what do you do? [about going back to work and childcare] Several of my friends all told me about [name of agency], I think they're in Houston. I actually did all of it online. No, I guess I had to fax them something, but otherwise, I just filled in our information and we were set. It's a great service."

The study revealed numerous instances in which household employers were able to overcome the lack of knowledge and difficulty factors. These experiences may be particularly fruitful of implications for nanny tax policy. The following excerpts illustrate "what worked":

> "I just kept plugging away. I was very motivated. I did it step by step. Sometimes I had to leave it alone and go complain about it and come back the next day and pick up where I left off."

> "I went on the [IRS] website and I had them send me stuff about employer taxes and I just remember having to spend a lot of time with it but you figure it out … eventually!"

> "It was very bad but I guess I felt like I was being a grown-up, a 'good doobie' by managing to do this for her [the nanny]."

> "It was a learning process. I kept calling my accountant - who had been doing the filing - with questions until I got the hang of it."

> "Back when I was paying [the housekeeper's] Social Security taxes - this would have been back in the mid-60s to early 70s it was very simple. You just paid one thing. I remember I went down to the Social Security office in [her town] and they set me up to do it. But nowadays forget it. It's just too much. I'm sorry."

6.3.3 Category 3: The "Household" Aspect of Household Employment Taxes

Study participants varied in the extent to which they identified with the role of household employer. The first descriptions below are from study participants who did not accept the household employer role. These people realized that they had a household employee and were technically obligated to pay nanny taxes. However, they did not think of themselves as household employers. They felt this designation was thrust upon them from outside, either incorrectly or unjustly, or both. Those that rejected the role were of course less likely to acknowledge and fulfill the responsibilities of being a household employer. Some of these employers expressed disengagement, denial, distaste and resentment.

One woman, who was planning to be home with her newborn, hired her nanny overnight due to an extreme health crisis. The nanny’s employment was an annoying inconvenience, since the whole family was out of town due to medical treatments, yet she was paying the nanny to keep her. Having begun that way, that is how the employment relationship continued. Another woman gave birth while holding down a medical residency at a demanding, nationally known hospital. The hiring of the nanny was naturally given the same short shrift as every other part of her life outside the hospital.

Other employers, who unlike the two employers above, did not hire in a crisis, evinced a sense of disengagement from the employee – as though there were no overlap or point of tangency between them. This could be perfectly appropriate in a cultural setting in which a house manager was in charge of hiring and managing the other household employees, however, in this situation, there is no professional who takes on this role. One woman who had had four nannies over a period of seven or eight years did not express any sense of responsibility or report any interaction with them. In her interview, she made no distinction between the four women factually, in tone, or non-verbally. Her remarks focused on her job, work-family challenges, and her law partners’ attitudes towards detection probability. It was as though a different individual had managed the employees, although her spouse had not played any part in hiring, paying and managing the nannies.

A fourth respondent had a similar lacuna in her remarks. She was silent on the subject of interacting or engaging with a series of four prior employees, although she had a relationship with her current employee due to that woman being a basement tenant who "cleaned the whole house as part of her rental arrangement."

Seven other employers – six female and one male – also revealed this apathy or disconnection from not simply the employee but from the activity of employing a human being. This was regardless of whether or not the employer was meeting the nanny tax obligations. These eleven individuals did not identify as employers in their households; interestingly, none of them was nanny tax compliant. This indicates that perhaps the employers' perceptions and attitudes towards the employment relationship itself is a determinant of nanny tax compliance.

Moving on to those who did appear to identify with the employer role, other interview subjects spoke of their household employer role, how their family background had shaped them, and their self-assessment as an employer. They shared many thoughts on being a household employer, and were interested in describing how they experienced that role. (The non-identified individuals were no less talkative or forthcoming, they just focused on other aspects of their experiences.) The following excerpts are from employers who had a firm household employer identity.

> "There are a lot of us that she's working for now, some are relatives of mine. We all stay in touch and check things out with each other. It's a good system because there's a lot of trust. There's a lot of accountability. She could never steal without losing all her jobs, for example. And I'd never give her a raise without talking it over with everyone else cause it would affect them too."

> "We had been raised with the thought that we should pay workers comp, etc."
>
> "I felt a great sense of responsibility to her."
>
> "We were never certain that she was legal even though she said she was and that's basically why we never pursued it [nanny taxes]. We were determined not to get her into any trouble."

Employers also discussed how they viewed the individuals who came to perform labor in their homes. I was able to distinguish four employer orientations or points of view towards employees.

6.3.3.1 Orientation 1: Resentment and Annoyance

These women saw the employee as an unwelcome intruder. There was a failure to accept the employee as deserving of employment rights because the worker was already imposing on, taking advantage of, or 'coming out ahead' with the employer. Although no one specifically referred to shirking behavior, some of the employer comments revealed irritation that the employee was being overpaid for the work he or she were performing. One woman spoke very coldly about all three of her successive live-in nanny/housekeepers. She saw them as "takers" who were getting a good bargain.

> "Yes, that's right, the minimum wage. But consider the fact that these women are all living in my house. They're eating my food. They can put absolutely all of it [their wages] in the bank every month."
>
> "It's really quite a cushy job. She just comes in the morning, straightens up, and does the dogs and that's pretty much it. We usually let her go home early, but she gets the whole amount every week."

The employer above had seen a daughter off to college, thus reducing the workload of the nanny/housekeeper over the years, without making changes to her hours or salary. Another employer complained that, although the employees did yard work, they did the wrong yard work tasks despite clear instructions, thus giving little value for the money. In one instance, part of her garden had been ruined by zealous but misguided gardening.

> "I don't know why I let them keep coming every week. I spend all morning telling them what to do and when I go away they do exactly as they please – like the rock garden incident I told you about."

Some respondents just felt that the negative aspects of having their household employee challenged the positive ones:

> "I was working at home, it was a small place, and I tried to secrete myself away and wore earphones to block the sound of my son and his nanny. I resented every minute away from my own work having to do her paychecks every Friday, the endless accounting. The whole point of the nanny was supposed to be so I could work. It was really the time and energy a lot more than the money [that bothered her]."

> "She [the nanny] was just a reminder of a bad time in our lives."

6.3.3.2 Orientation 2: Disregard or Denial of Employees

Some employers expressed willful disregard or denial of their employee. They didn't resent them, collaborate with them, or condescend to them. They just didn't acknowledge them. This is important because this attitude, of course, leads to abnegation of all payroll responsibility. They felt that the people they had hired were not employees, but rather something else. These individuals knew enough to know that they *looked* like they had an employee, but they also had a ready explanation for why they didn't. One employer used the phrase "provisional arrangement," one used the phrase "not contract," and one used the word "temporary." Following are additional quotations representing this attitude:

"Well these people come in and do everything. They're in teams, and I can only assume that one of them's in charge and is taking care of all that [payroll taxes]."

"I only took her on for six months. It was a mutually provisional arrangement – she was trying us out too."

"[name of employee] is not an employee, she's a renter. She just does housework for me as part of the rent."

"This guy is really someone who works for [husband's business]. [Husband] sends him over every Friday afternoon to take care of the lawn and such. It's also part of his rent 'cause they live here, his family lives here in a little house on our property."

"There's no commitment on either side so that without that surety, no one seems to be much concerned with, say, anything but cash on the barrelhead."

"And I have this girl come over once a week to keep me organized. I give her a hundred bucks a day. I guess she's technically working for me, but she's doing office work."

6.3.3.3 Orientation 3: Generosity and Paternalism

The third of the four dominant stances towards employees which arose in the interviews was that of the employee from a superior yet at least somewhat benevolent position. The dominant theme was wanting to act in such a way as to assist the employee, but with a sense of confidence about what would best accomplish that. For example, employer's wanted: "to do right by her," "to help her avoid trouble," "to make sure she didn't lose any benefits," and "to not reduce the amount of money she made every week." In the context of nanny tax compliance, employers gave altruistic reasons for paying the taxes *and* for not paying the taxes.

Those with this benevolent but superior attitude demonstrated protectiveness and sometimes possessiveness. They usually came from a family background of having household employees. There was a sense of responsibility and commitment to the perceived welfare of the employee. However, there was also a sense of condescension and confidence that they knew best how to benefit their employee. The quotations, which follow, demonstrate this:

> “I care about her enormously. I want her to get enough Social Security to go home, retire, and enjoy her grandchildren. If I had *my* way [as opposed to his spouse’s way] I would’ve given her all the forms to file self-employment taxes and the money – I know that’s not what we’re supposed to do, but it would actually have been a lot easier for us never mind the ridiculous amount of money [the accountant] got. And she could’ve made her own decision whether to pay the taxes.”

> “[The nanny] needed her retirement benefits just like anyone else. I’m glad I was able to help with that. I wish more people felt like we did.”

> “This woman is worth every penny. She’s been with me for years; she’s a true Christian. What I mean is, she is very serious about her faith, we have that in common. I would do anything for her. I know she would never go for taking money out of her check, and we would never force the issue.”

> “Oh God no! I can pay her so much more if it’s under the table. She’d make like $7 an hour if we did all that. This way she makes $11. I honestly think it’s the best thing to do, for her sake.”

> “Back when [her son and her daughter] were little we had several nannies. I think it would’ve been wrong to ask someone at that low a pay scale to have taxes taken out. So no, we didn’t pay but it was for their benefit.”

> “She was a very decent, hard-working Black woman. She had a bunch of no-good people in her family who lived with her, who never worked. I didn’t give her a hard time about it, but you had a feeling that some of that money…If anyone deserved to have Social Security, she did.”

Hearkening back to the employer-identification theme, these individuals were of course strongly identified as household employers. They described the lengths to which they had gone to assist their employees. One woman was not paying nanny taxes for her employee because “I was too poor at the time”. Later, upon the employee’s retirement, this employer responded to her employee's requests for financial help. This evolved into sending $100 a month for twelve years. In pure dollar terms, this employer paid many times her "share" of the employee's retirement security.

What makes a last one an example of paternalistic behavior is the keen sense of power and financial imbalance this employer expressed coupled with an ongoing sense of responsibility. This was a sense of responsibility for someone who had at one time given their all for your household and thereby acquired a certain small but permanent claim on the goodwill of the former employer. This was expressed, sometimes quite passionately, by four employers I have characterized as paternalistic. It entails a class-based assumption that the grantor has and will always have plentiful resources; also, the claimant is and will always live in scarcity. Three of these paternalistic employers described being uncomfortable with some employee who had a more fluid sense of their class identity and therefore was not interested in playing the loyal servant role in exchange for a vague mutual understanding that they would be protected in financial emergencies. The example below is illustrative of this.

Another woman related a telling incident in which it was clear that she saw one of her employee's as "a regular employee" and one as having served long and faithfully enough to deserve a certain kind of treatment.

> "I have this woman who irons for me. I've had her for years and years since the kids were little. She can hardly do anything anymore, poor thing, but I keep her coming out [to the employer's house] for her own sake."

For example, this woman comes to work for several hours twice a week despite her services not being needed. She is in her 80's and frail and the other, much younger employee does everything else. Many benefits, gifts, and financial safety net items are given to the older one, such as car repairs. The younger employee had been jealous for some time; she lost her temper one day and insisted on a raise to even things out.

The following quote from a different interview illustrates the condescending yet financially generous attitude these paternalistic employers have:

> "One day she came to work and mentioned in that sideways way which isn't really asking but instead informs you of a great problem because they correctly assume that you do want to know about anything bad that's happening to them. She needed twelve thousand dollars. It was to make a land purchase in Manila go through. She had twelve thousand in a CD that wasn't due for some months. I offered to lend her the money. I was following my own rule which is if you can afford to lend it, why not? I wrote her a check at the end of the day – obviously she was really grateful – and I got the money back at the end of the summer. Bear in mind, I only had *her word* that there was a CD. That's how much trust there was between us. $12,000. And not so much as a paper IOU!"

Of course, the large dollar figure involved is not relevant. The same scenario could be played out with $1200 or $120. The key element is that the employee knew the nature of the relationship. A final quote illustrates this attitude:

> "We are a literal Social Security system for her. We do what the government is supposed to be doing for these people, and we do it more efficiently, more humanely. If the integrity is there, and the capacity for love, on our part, and the loyalty on their part, then, if those things are in place, then it's like the Stones: you don't always get what you want, but you get what you need."

Some of these employers were nanny tax compliant and some were not. There appeared to be nothing in this paternalism that made employers inclined to pay or not to pay. In other words, neither a helpful, generous, compassionate, attitude nor its extreme version, the financially generous, paternalistic attitude, appeared to correlate with compliance. Of course, the small sample size limits my ability to define a relationship between altruism and compliance.

6.3.3.4 Orientation 4: Respect and Partnership

The fourth and final way in which employers related to the employees was as a partner or peer in running the life of the family. They discussed their employee as a colleague in the difficult effort to maintain two high-income jobs while properly caring for one or more children. In these cases, the employee had evidently been given and was accepting a great deal of responsibility for managing, planning, purchasing, and decision-making. Of the six who perceived their employee this way, five were women.

> "[Nanny's name] is amazing. She is so like me. Her work ethic is amazing. I can go in there [points to her home office], shut the door, and ignore everything till four o'clock because I know she'll handle everything just as I would. If she weren't my employee, she and I would probably be best friends."

> "If I just focused on keeping [nanny's name] going [her well-being], then *she* was able to focus on taking care of [employer's son]. I knew nothing about babies, signs of illness or when they should eat solid food, etc. and I didn't really want to. I was paying her to be the baby expert. On the other hand, I *did* know how to navigate the adult world well enough to solve all of [nanny's name]'s problems rapidly enough that her entire focus would be on our son. I taught her to bring all of her outside problems to me – anything that would keep her from work or distract her at work. In the long run, handling landlord problems or getting her in to see my dentist right away was a much better deal than losing her help while she bumbled around trying to handle stuff herself – which took forever. Everything takes so long when you're poor. I figured if I could keep her healthy and unstressed then she could best care for my child. I cared for my child most effectively by taking care of my nanny."

> "Since your nanny is the one taking care of your kids, I'd think you'd want to take care of her."

> "All of these women are godsends. They know exactly what to do – you really need special training to care for the kinds of special needs our kids have."

> "I deferred to her a lot. I'd often tell her that she was the expert and that I trusted her judgment more than ours."

In several of these cases, a partner-like intimacy and affinity seemed to exist between the two women working hard to maintain a household – one industriously from inside and one protectively from the outside. These study participants granted their employees a lot of respect for their capabilities; they also gave them a lot of trust and autonomy in decision-making.

6.3.4. The Household and the Welfare State

Finally – although it may sound grandiose and abstract – the household employers had definite and divergent opinions about their household in relation to the welfare state. That is, they expressed opinions about proper role of the household vis-à-vis the government and the Social Security system. Some felt civic pride in participating appropriately as an employer in providing some income security for their employee in retirement. On the other hand, some felt strongly that the government's request for half of the payroll tax was an affront, was ridiculous, was an outrage given the amount of goods and services and extra income they were providing their employee with. In other words, employers critical of Social Security coverage of domestic employees felt that their own household was not only assuming the role of the welfare state, but doing a much better job than the U.S. welfare state ever could.

Of the thirty participants, twelve volunteered a point of view about the government levying Social Security payroll taxes. Four employers were clearly positive. They expressed an understanding of the importance of benefits. Two had had experience with Social Security Survivors' Benefits.[3] Two referred to a standard of living below which people should not have to live. In all cases, the employer referred to him or herself as a reference point for this standard or for the importance of the benefits. None of the comments were in the abstract. None used the words ‘welfare state’ or ‘government’. These quotes illustrate these positive views:

> “I really believe in people getting Social Security. I knew Social Security benefits. I was willing to figure out how to do it. I had had some experience with Social Security myself because my dad died when I was in high school and I got some money each month as survivor benefits. It made me feel good because I knew he’d paid into that his whole working life.”
>
> “You get out what you put in, sort of. If you don’t do it, you’ll be sorry later. My mom and I were so glad to have my dad’s Social Security check.”
>
> “There’s no reason her life should be any worse than ours when she retires just because she’s working for a family instead of a company!”
>
> “I guess I’m partly motivated by wanting social justice.”
>
> “I pay these people well above the market rate. If I couldn’t afford to do that, I’d do the work myself!”

On the other hand, eight employers were clearly or somewhat negative. The following excerpts are from two employers who felt that in their case the taxes were unimportant, even superfluous:

> “Well, her husband has a great job with the county and he’s going to get a fine pension. I’m not worried about her at all. Maybe if they didn’t have that….”
>
> “It’s not like she’s alone in the world.”

Likewise, several employers were convinced of the futility of making these tax payments and expecting the employee could ever benefit from them:

> “What rips me is she’ll never get any of it.”

> "If I thought these people were ever going to see any of that money, I would *gladly* pay it."

One singled out unemployment taxes (FUTA) in this regard, (as opposed to the Social Security part):

> "Virginia is ridiculous, incredibly strict. We'd be throwing our money away, because she'd never collect anything."

In addition, some employers expressed scorn for the government in these phrases: "those idiot bureaucrats," "those pencil-necks," and "Virginia is vicious like that, they're the second worst in the country for that kind of hassle." Finally, these employers expressed the opinion that they were a far better provider of welfare, that they took the employee's welfare more to heart than the government ever could. They felt they should be allowed to "opt out," as it were, on the basis of their sense of commitment and generosity with their resources.

"I take better care of her than any pencil-neck bureaucrat would dream of doing."

One woman simply stated that she resented the intrusion of the government into her household. The household was the key element, not the idea of the payroll taxes.

> "I don't know. I just feel that the government should stay out of the household and it's a little weird for me to feel that way because ordinarily I support all kinds of government benefits and support for people."

6.3.5 Summary of Employer Results

Employers had various levels of identification with the employer role, various attitudes towards their employees and various points of view about the government in relation to their household. Clearly many employers are not prepared or willing to take on the responsibility of engaging with those they hire to perform household labor. Interestingly though, strong identification as an household employer was not connected to nanny tax compliance in that there was no apparent difference in compliance behavior between the two groups. Liking the employee did not result in higher nanny tax compliance. Disliking the employee appeared to predispose employers to evade, but for some employers, other pressures made them comply anyhow (e.g., spouse, government employment). Finally, all four with a positive regard for their household's requirement to provide part of the retirement security for their employee through the Social Security system *did* all pay nanny taxes. And of the eight with negative views, four did not pay and the remaining four paid under clear duress from an external source (a spouse with greater assets or income, their own government employment).

6.4 Nanny Results

6.4.1 Why Do Employers Pay?

Nannies discussed only four basic reasons for employer compliance: fear of getting caught and losing something professionally, personal ethics, feeling pressured by someone, and getting a tax break. The first reason, detection probability, was discussed by nannies specifically in connection with the employer's job (7), in connection with the employer's small business (1), as well as in general terms (4). When citing personal ethics as a reason for employer compliance, nannies referred both to employer ethics regarding the nanny herself (5) and employer ethics regarding the law (3). That is to say, some nannies saw employers' ethical concern for the nanny as driving compliance while others cited the employers' ethical concerns for lawful behavior in general. The following reflect nannies' responses:

> "To be good to the nanny."
>
> "Some employers are responsible employers."
>
> "For the nanny's future."
>
> "It's the law."
>
> "They care about the nanny."
>
> "She [the employer] didn't want to lie to the government."
>
> "When I got interview, I ask every time, pay my taxes, pay my health insurance...some nanny doesn't do this...you ask them [the employer] and if they don't, then you don't say you take that one."
>
> "They work for the IRS."
>
> "Most pay, because we put that on the top."
>
> "Most employers are in the government and they go by the book."
>
> "It was the right thing to do. Also, concern with me."
>
> "It [the employer] was working in the government."

Two nannies worked for small business owners. Both employers were tax compliant, despite not holding a job perceived as vulnerable to discovered tax evasion.[4]

6.4.2 Why Do Employers Not Pay?

Overall, nannies made it clear that the employer's government job was the reason that taxes were paid. However, when focusing instead on the question of why noncompliant employers didn't pay, nannies dwelt on the idea that employers did not pay when they did not care. The reasons conjectured for employer noncompliance included: the employer was a diplomat, the employer did not like the nanny, the employer was Jewish; the nanny was not a citizen, the nanny was only a part-time worker.

> “[If the] employee only part-time, don’t want to help, extend the hand.”
>
> “He [the employer] thought because he’s not a citizen he doesn’t owe. Also, he is saying I’m an independent contractor.” [The job was full-time nanny to newborn twin boys.]

Only two of thirty nanny interviewees talked about the employees themselves not wanting payroll taxes paid:

> “Younger don’t want to pay. Also, if money is too little.”
>
> “Sometimes the nanny, housekeeper doesn’t want to pay the taxes. They do it especially if the salary is very small, or if she has a big family in the Philippines.”

6.4.3 Nanny Ignorance of Filing Requirements

There were only four of the thirty nanny interviewees who demonstrated a clear misunderstanding of the household employer’s requirement to file payroll taxes. One respondent mistakenly thought that the amount she earned per week was too small to count for taxes.

> “They have to if you have papers [a green card].”
>
> “The first family I worked for was diplomatic so they didn’t have to pay the taxes.”

6.4.4 Bad Treatment

The following employee excerpts describe bad treatment:

> "The first job was live-in for six months. I made $200 a week [in 2000]."

> "Before my green card, I got $275 per week. I work eleven, eleven and a half hours a day. They do not pay taxes. I am filing my own taxes and paying everything."

> "When I first came here to the U.S., I really disappointed. I am working to Egyptian diplomats. The work it's 7 a.m. to 2 a.m. a lot....$200 a month, September,1990. I worked to them seven month, I losing weight, got sick, 103 lbs to 83 lbs. The kids are 12 and 16 and they spit on me. But, I think of my
> niece and nephew, their education. One of my friends from church helped me run
> away and find new family."

> "My first job is for a doctor. They live in [DC neighborhood]. It's a live-in. Too busy. Before my green card, it's $200, $300 after." [This was in the early 1990s. She had a health emergency, was in the hospital, was not able to work.] "The employer is not good about it. Even there is no salary, the bills keep coming every month."

One nanny had a job in Georgia between DC jobs. The employer was a doctor. She had to clean his office as well as do the housework. This "let him put me on the payroll that way, so I can have Social Security through that." However, she had to work extremely long hours.

6.4.5 Good Treatment

Nannies described good treatment as well. One experience that was valued was that of being kept on after children outgrew them. The workload was lighter but the salary was the same. Several described being sponsored for their green cards, often with the expensive immigration attorney fees paid as well. Health insurance was another feature of good treatment. One nanny mentioned that both she and her daughter had had health coverage for twelve years through the employer. Another felt appreciated and her value recognized because her employer matched the variations in job difficulty (out of town guests, the family needing her to travel with them) with boosts in her weekly pay. Overall, nannies often made reference to their own employers' filing of payroll taxes as coming from their employers' concern about the nannies' well-being in the future.

6.4.6 Being a Household Employee

One nanny expressed the belief that good, hard work was what leads to kindness and fairness from an employer. Her previous employer had "nasty character," but the nanny just "showed kindness anyhow." A second nanny sometimes advises friends, "Just stay for a little while and maybe she's change the attitude." Another suggested that when you have a "bad employer," you should "work hard, even when they are not there, then I will get their sympathy."

A different respondent told of how her employer used to buy her plane tickets home to the Philippines, so she would work parties for them for free out of gratitude. However, she cautioned, "Sometimes if you get friendly with them then they get abusing." Others told of employers checking up on housekeeping, leaving long to-do lists when the family was out of town.

> "A lot of people, especially Jewish people, it's hard to work for them. It's always like you do this, you do that."

> "She keep saying from her mouth that she is treating me like family, but you have to show to your nanny that you really care."

> "What I care about is to have a good relation [with the employer], to treat them as a family, especially if they are live-in. Because my second employer very sweet, very nice, but then she always looking something from you."

> "I read in *Washingtonian* magazine, you know that magazine, *Washingtonian*? They wrote about how Washington families prefer Filipinas. Americans sometimes say Filipinas better because they works not only for the money, but also she would love your kids as her own."

Having open and honest communication was highly valued. After a description of a challenging set of children and two busy employers, one nanny said, "It's OK, because we have some communication." However, after one description of a maltreating employer, the nanny remarked in perfect seriousness, "But I am thinking maybe the Lord has a purpose for sending me to them."

6.4.7 Advice

A number of nannies talked about the need to ask whether the prospective employer was definitely planning to pay nanny taxes. They stressed that their practice was to establish this before accepting any job. Nannies referred to giving this advice as well as getting it from other nannies.

> "You have to say it at the first."
>
> "I know to ask. I learned through friends."
>
> "We have to ask as the first thing about the taxes."
>
> "I meet somebody, we talking (about taxes) in the bus, she is working, salary is too small. I said, 'Don't worry [about how she had to pay taxes] because the salary it's too small to be a lot of taxes."
>
> "I advise [other women] pay the taxes because that is good for us."

6.4.8 The Meaning of Remittances and Social Security

In order to understand the meaning of Social Security, it is important to examine the meaning of remittance payments. After all, this current support of dependents is what will be replaced in retirement. Therefore, the importance of the retirement benefits to this population is demonstrated by the following excerpts:

> "You know Philippine culture, our culture, we take care of our people."

> "It's all about coming to the United States and sending money home. There is a lot of gold here. The U.S. is the land of milk and honey. You can convert one American dollar to forty-eight pesos, so, one hundred dollars is going to be
> 4,800 pesos, and you can buy a lot of things with that money."

The following quotations are in answer to the question, "Do you send money home to the Philippines?"

> "Of course! That's why we are *here*. To send money home to the Philippines."

> "It's a monthly obligation. I'm the one who is going to give the money."

> "Oh yes, it never ends until now. I am still doing it. Nephews, my mom, my brother in law, my mother-in-law [mother of her *ex-husband*]."

When asked about the meaning for them of having their nanny taxes paid, respondents showed an understanding of, and an attachment to, their future benefits. The following excerpts reflect this:

> "You have something (Social Security), even it's not a lot."

> "Later, I will get retirement."

> "If you declare all of your salary, you are going to pay a higher tax. But if you declare [all of] your salary, you get full Social Security from it."

> “It will pay me back.”

> “It’s good, at least for us who have no other investment, so we can have something at the end.”

6.4.9 Summary of Nanny Results

In the nanny interviews, respondents touched on employers’ motivations for compliance and noncompliance as well as on several aspects of having a household for a workplace. Nannies shed a good deal of light onto the question of these motives, while their experiences simply echo the vulnerable and difficult position of domestic workers, especially migrant ones.

6.5 Conclusion

This chapter detailed the interview material from sixty employer and employee interviews, exploring possible drivers of household employment payroll tax compliance. The employer interviews showed considerable variation in participants’ identification with the role of household employer. Surprisingly, neither the strength of this role identification nor personal warmth and appreciation towards the employee appeared to drive nanny tax compliance. Some employers were critical of the requirement to pay payroll taxes for household employees; they viewed it as excessive intrusion into the household. Others supported the extension of payroll coverage to domestic workers and felt the government, working through the IRS, was justified in expecting nanny tax compliance. These positive or negative attitudes about the Social Security payroll tax system did seem to affect compliance decision-making.

The employee interviews gave voice to those for whose benefit these payroll taxes are mandated, the workers themselves. The thirty Filipina housekeepers and nannies interviewed gave the following as explanations for employer tax compliance: the fear of being caught in respect to their careers, outside pressure, personal ethics, and the attraction of the tax break [which they tended to overestimate]. On the other hand, they explained employer noncompliance as the result of the following factors: not having a career-related reason to care about getting into trouble with the IRS, not caring about the nanny, not considering him or herself subject to payroll tax obligations by virtue of being a diplomat or a foreigner working temporarily in the United States, or by virtue of having only a part-time employee. Only two of the thirty specified employees pressuring the employer to pay under the table as a motivation for noncompliance. It is reasonable to assume that this motivation drives some of employer noncompliance nationwide. However, this sample of Filipinas is characterized by the value they place on retirement benefits; this characteristic benefited the study because of the insight it gives us into employer behavior when the employee does desire payroll tax coverage.

Notes

[1] This employer had arranged a nanny-share with a friend.

[2] During the time I was researching and writing this dissertation, I had dozens of nanny tax conversations with people besides the sixty interview subjects. Many of these conversations were with household employers. I would estimate that ninety to ninety-five percent of them were almost completely uninformed about nanny tax compliance.

[3] Social Security Survivors' Benefits are paid to the widows, widowers, children and dependent parents of a deceased worker who has paid into the system for a minimum of ten years.

[4] The tax compliance literature clearly shows a higher audit rate for small business owners. So, as a further refinement of the economic model, small business owners would seem to face a detection probability falling between virtually zero, as faced by ordinary taxpayers and near one, as faced by those whose backgrounds are being investigated by the press and by the campaign staff of political opponents.

CHAPTER 7

COMPLEXITY, ALTRUISM, AND SOCIAL NORMS: AN INTERPRETATION OF THE INTERVIEW MATERIAL

7.1 Introduction

In this chapter I analyze the results of the sixty interviews in light of the traditional tax compliance model but also put forward a way of viewing these results that accounts for the differential impacts of competing motives on the ultimate compliance decision. In other tax compliance research compliance or evasion are the two possible outcomes of an oversimplified binary construct which is particularly unsuited for studying household employer payroll taxes. This study takes advantage of the reportage of multi-layered conflict and motive in dozens of interviews with household employers to propose a compliance model informed by institutional and behavioral economics that moves beyond tax and penalty levels to include a role for altruism, for procedural complexity (in addition to cognitive complexity), and for social norms. Nanny tax compliance is an excellent example of the behavioral economics finding that faced with barriers such as ignorance and complexity, human beings will sometimes make irrational economic choices that are not in their best interest.

The traditional economic model presents the compliance decision as the outcome of the taxpayer's cost-benefit analysis given clear values for four key variables. The interviews in this study, on the other hand, demonstrate the importance of listening to the ways people connect or fail to connect to other people, and their perceptions of what others are doing. The interviews showed that some employers saw themselves as overseeing a staff in order to produce a top-notch household for entertaining or living in style whereas other employers saw themselves as stressed, constantly time-debting, corporate executives, political operatives, or other highly-placed professionals fully reliant on a nanny for child care. Despite the variation in employer self-concept, nannies were often perceived as having the enviable job of 'spending the day playing with the children' in contrast to the employer's stressful responsibilities both paid and unpaid. This factor clearly worked against the employer acknowledging that their home was the workplace of another and that their role as employer was to conform to labor regulations nonetheless.

Anecdotally, many households pay their workers under the table. When household employers do pay taxes, especially for workers with few hours per week, they contravene an accepted social norm, at least among those without political ambitions. We do not normally expect the average employer of a babysitter or housecleaner to calculate and pay these taxes – we might see sticklers for this as being compulsive, overscrupulous, overfond of tax preparation as an activity, or at least parting with money unnecessarily. Perceptions of what others are doing clearly matter to mass marketers, who have harnessed the power of this urge first to know what others are doing and then perhaps a bit later, to join in. Perhaps in the same way that established suburban neighborhoods can be subtly governed by the collective desire to avoid being the neighbor whose dandelion seeds repopulate the adjacent lawns or the family whose driveway is dominated by booming car stereos, in the same way, no one wants to be thought an overly-anxious buffoon with regard to the IRS. In fact, we are constantly bombarded with advice for conducting our financial lives year-round in such as way as to minimize the tax due; at tax-time, people do pay for software and services promising to help them pay as little as they legally can. Furthermore, professional tax preparation services boasting about the size of potential tax refunds drown out civic discussion of the need to finance public goods and services through legislated tax payments. These perceptions and concerns about tax compliance may drive some amount of household employer tax evasion.

An approach informed by institutional and behavioral economics can better account for the interview results Chapter 6 presented. Moving beyond the maximization of self-interest, this approach takes into account change over time in the taxpayer's universe of competing claims and interests. I argue that these costs and benefits are, like so much else, socially constructed; a full analysis of any kind of tax compliance demands a look at such things as social norms. Employment taxes – which always involve another party, the employee on whose retirement behalf the taxes are paid – especially demand consideration of how we take into account the well-being of the other.

To some extent in this chapter I use the term altruism as shorthand for the sort of personal connection and empathy that can foster altruism in dealing with another, although in general I do mean the inclusion of the economic welfare of the other person when considering one's economic options, to the extent of valuing it equally or above that of oneself. I found it interesting that some employers were motivated to pay this tax on behalf of all employees prior to meeting and hiring them, that is, on principle, whereas others came to their concern and willingness to pay only after they had hired a flesh-and-blood employee. The economic result was the same: altruism was playing a role. The employer was no longer maximizing their own financial self-interest in making tax compliance decisions.

The confounding nature of Schedule H and its state-level counterparts also requires that we acknowledge the operation of complexity as a barrier whose mitigation should be a key policy goal. Complexity comes closest to fitting within a cost-benefit paradigm. Clearly, the household employer is weighing the time and energy costs of learning how to comply properly and then the costs of continuing to perform these actions. Mitigating the complexity barrier is one of the easiest, most implementable policy prescriptions.

Although the two employer compliance barriers of ignorance and complexity each imply information costs, they are not they same thing; one revolves around the employer while the other inheres in the tax system. Ignorance refers to the lack of awareness on the part of the employer – once addressed, the obstacle vanishes. Ignorance about, for example, the amount of wages that trigger employer tax obligation or the consequences to the employee of not paying the tax, blocked compliance all by itself in some cases. Some employers, once educated, would then pay because the other motivating factors would then be decisive factors. Complexity, on the other hand, represents an ongoing challenge. Complexity ordinarily works as a drag on the pro-compliance factors in a given employer scenario. Reducing compliance would likely improve the likelihood of filing of each employer; whether it would create enough of a difference for all employers is an open question.

One of the most important features of the chapter is the force-field analysis I conduct on five distinct employer situations drawn from the interview material. In the interviews, some employers told stories which could best be represented as a movement along the compliance-to-evasion spectrum which was significant enough to alter their eventual decision. Other employers figuratively moved along the spectrum but did not cross the midpoint. They experienced forces pushing in both directions. My interpretation of the results suggested this force-field analysis as a way of making plain the apparent internal process which seemed to be part of the employer stories. The value of thinking in these terms is the space it opens up for creative policymaking. Although easing the overall psychic discomfort of taxpayers is a worthy policy goal, simply understanding their mixed feelings and their sticking points will allow closely-targeted policy interventions that move the “almost compliant” taxpayer over the line to compliance – at least long enough to file each quarter.

Complexity, altruism, and social norms all stood out as non-traditional drivers of compliance. Employers were daunted by the difficulties of this tax. Some were paying state-level but not federal-level taxes (or vice versa), declaring half-measures better than none. At every step of the way, the complexity of these taxes combined with and contributed to lack of knowledge and awareness to form a barrier to compliance. Neither employers nor employees singled out ethics *per se* as a motivation for compliance behavior. However, both employers and employees often pointed to individual-employee-specific altruism. As further evidence of a role for altruism, employers varied in their compliance behavior across different employees, even contemporaneous employees. In fact, employers’ compliance was affected by their attitude towards each specific employee working in their household. Distinct orientations included active resentment of worker as intruder, refusal to acknowledge the existence of the employee, feeling in partnership with the employee, altruism, and paternalism. Some employers had strong, primarily negative opinions about the authority of the government to compel them to pay taxes on money they pay people who work in their homes. Employers who had a positive attitude towards the U.S. system of public retirement benefit provision and the employer's contributing role were tax compliant. Social norms were associated with compliance behavior, in the sense that compliant employers appeared to have compliant peers and noncompliant employers appeared to have noncompliant peers. Networks of people are the infrastructure of social norms construction. Few employers could remember talking to work or social friends about nanny taxes, except generally in relation to news items. Within a household, spouses sometimes disagreed about the compliance decision; the spouse with greater earnings or greater assets made the final decision.

7.2 Categorizing Employer Compliance

In the discussion, I refer to compliant and noncompliant individuals. In order to categorize employer compliance, I must first define it, a task more difficult than it might initially seem because it describes a range of possibilities rather than a simple binary. I define compliant as either sometimes-compliant or always-compliant. This is because the two groups labeled sometimes-compliant (11) and always-compliant (5) were not as different from one another as they were from the group labeled never-compliant (14). I tried several schemes of categorizing compliance, including grouping employers by starting /stopping behavior. Among the sometimes-compliant (11), there were those who paid the tax but then left off paying it. These were labeled Stoppers (4). Also among the sometimes compliant, there were those who had begun paying after some time. These were labeled Starters (7). (None of the employers I interviewed were on-again, off-again payers.) Therefore, I divided the Sometimes Compliant into Stoppers or Starters. In future research, I might focus specifically on those who did pay intermittently (rather than lump them in with Starters) because they had at one time been aware that they must pay and had known how to pay the tax but then chosen not to. Finally, I found it meaningful to recombine the categories into Noncompliant (the Never Compliant) and Compliant (the Stoppers, the Starters and the Always Compliant). Note that the Stoppers are the only group who can be said for certain to be consciously evading nanny taxes, because the never compliant include some who did not know that they owed. Table 19 below shows the steps in this process. This allows me to examine the group of employers who have had some compliance, regardless of how incomplete, in comparison with employers who have never filed. There would be other ways of categorizing compliance: state vs. federal return compliance, state unemployment tax vs. state income tax compliance. However, my research did not gather explicit information on which forms were filed in all cases.

Table 16: Extent of Employer Compliance

<table>
<tr><td>How Compliant?</td><td>Never Compliant</td><td colspan="2">Sometimes Compliant</td><td>Always Compliant</td></tr>
<tr><td>Number of Employers</td><td>14</td><td colspan="2">11</td><td>5</td></tr>
<tr><td>How Compliant?</td><td>Never Compliant</td><td>Stoppers</td><td>Starters</td><td>Always Compliant</td></tr>
<tr><td>Number of Employers</td><td>14</td><td>4</td><td>7</td><td>5</td></tr>
<tr><td>How Compliant?</td><td>Noncompliant</td><td colspan="3">Compliant</td></tr>
<tr><td>Number of Employers</td><td>14</td><td colspan="3">16</td></tr>
</table>

7.3 Interview Subject Explanations for Compliance and Noncompliance

I used my own judgment and drew inferences about each respondent's motivations based on the totality of the interview results for each respondent. However, I also recorded the reasons each respondent gave for complying or not complying. I coded responses into categories; interview excerpts with exact wording can be found in Chapter 6). Reasons employers gave for not paying were: ignorance (10), complexity (10), peer norms (8), disapproval of the collection of taxes from household employers (9), low probability of getting caught and no career consequences (9). Reasons employers gave for paying included: peer norms (5), altruism (5), support for aims of a payroll-tax-funded system of Social Security (5), high probability of getting caught connected to possible career consequences (6), high probability of getting caught connected to ownership of a small business that was vulnerable to audit (2).

How did nannies perceive and respond to their employers' tax compliance decisions? The nanny interviews did confirm one of the chief results from the employer interviews, which in turn confirmed the prediction of the basic tax evasion model, that is, the role of detection probability and penalty (when penalty is broadly interpreted as grave career consequences). The nannies were very clear about the role of the employer's job as being the most important factor in compliance. Nannies overall reported that in their experience the employers paid nanny taxes when the employers held jobs which required that no tax wrongdoing ever come to light. Specific examples included the IMF, the World Bank, the IRS, and the INS. Some of their employers simply held government jobs at a level that required avoiding tax evasion and in some cases entailed increased tax scrutiny. Some held prominent political jobs or simply had high political hopes that required they maintain a perfect tax track record, especially concerning the hot-button Senate-confirmation issue of nanny taxes.

On the subject of detection probability, two nannies also told of small businesses owned by their employers as the only reason their employer (or former employer) was nanny tax compliant. This result speaks to the importance and efficacy of increased IRS scrutiny, as these employers perceived and responded to the increased general tax scrutiny of small businesses.

Many reported that they respond to the employer's position of compliance or noncompliance by deciding not to work for the employer, if no taxes will be paid. The Filipina interview subjects value the Social Security benefits they expect to receive and see an employer who pays taxes properly as essential to their planning.[1] Perhaps this is due to the fact that the Philippines has long had a Social Security system modeled on ours; this would increase their awareness of the system and increase their expectations of it. Pressure from employees themselves was not a factor. No respondent reported ever asking an employer to pay the taxes once they were employed. At least five employees reported that they always asked about taxes upfront during the employment interview and that they made it clear that they would not work unless the payroll taxes were properly paid.

Why would I think that the nannies' perceptions are accurate? One could question whether the employees were correct in their assessment of the employer's motives. I did not necessarily think that the employee interviews would yield accurate information about employers' motives for nanny tax compliance or noncompliance, although I acknowledge the earlier appearance of this implicit assumption. I conjectured that interviews with employees might uncover new anecdotal evidence of motives that I had not observed, or heard of, up to that point in my ethnographic research with employers.

Here is an example of a misguided employee-side attempt to explain noncompliance. Two employees separately told me that their employers did not pay the payroll taxes because their employers were Jewish. Now, the employees are observing noncompliance and drawing a conclusion based on their own prejudice. They obviously possessed and deployed an ethnic stereotype of stinginess to explain their intermediate perception. In each of the two cases I explored this response by asking for clarification rather than accepting the words at face value. The two respondents (separately) explained to me that Jewish households were "stingy" or "tight with the money."

The following is another example of employees perhaps being mistaken in their interpretation of employer motives for compliance. The employee interviews contained a clear theme of employers "caring about the nanny" and her future and therefore paying the taxes. They drew a connection between an employer's solicitous attitude towards the employee and the employer's tax compliance. At this point, let me remind the reader that this sample was not representative of all household employees in the area. They were a community of full-time, documented immigrant Filipina nannies and housekeepers who belonged to an informal social network based on their Filipina identity. They remitted a large percentage of their earnings to the Philippines for the support of numerous dependents. They tended to expect to return to their home country, where their husbands, children, and in some cases, grandchildren lived, rather than settle in the U.S. They envisioned and spoke of their future Social Security benefits as replacing their support of their families.[2] Therefore, they especially valued building their Social Security credits and might be mistakenly interpreting their employer's payment of the taxes as concern for their well-being. On the other hand, based upon my experiences with the interview subjects, my personal experiences, and my ethnographic work among both employers and employee, I do give credence to the employee interpretation on the whole. This is particularly based on my analysis of the overall failure of the putative tax break for child care expenses (requires paying on the books) to offset the payment of payroll taxes over a threshold amount which is well below the average salary commanded by the specific nannies and housekeepers interviewed.

7.4 Evaluating the Basic Model of Compliance

Traditional models of tax behavior consider evasion a risky asset in a household's portfolio (in risk theory, assets lie on a spectrum from risky to non-risky). The expected utility function modeling tax behavior depends on the four components of

Becker's propensity to commit a specified criminal act. These are detection probability, penalty, and income and tax size. The following specification represents the probability that a taxpayer will evade:[3]

$$E = \beta_0 + \beta_1\mathbf{d} + \beta_2\mathbf{p} + \beta_3\mathbf{i} + \beta_4\mathbf{t}$$

where E is the probability of evasion, **d** is detection probability, **p** is penalty, **i** is income, and **t** is the size of the tax. The first-order conditions are:

$$\delta E/\delta\mathbf{d} < 0,$$

$$\delta E/\delta\mathbf{p} < 0,$$

$$\delta E/\delta\mathbf{i} < 0, \text{ and}$$

$$\delta E/\delta\mathbf{t} > 0.$$

A taxpayer, all else equal, will be more likely to evade paying a tax as the detection probability falls, as the penalty falls, as income falls, and naturally more likely to evade as the size of the tax rises. In the general case – as opposed to the household payroll case – these variables and the signs of their first derivatives are intuitive. This approach is a useful starting point, but incomplete in the case of household employment payroll taxes in that all four variables behave somewhat differently. The detection probability and penalty variables do not operate independently; they have either high or low values depending on career of employer. In addition, the first-order conditions on the third and fourth variables are not consistent in sign with the general model.

7.4.1 Two Levels of Detection Probability and Their Associated Penalty Levels

The results of this study confirm the importance of the first variable, detection probability, as well as its sign:

$\delta NTE/\delta \mathbf{d} < 0$,

where NTE is nanny tax evasion and **d** is detection probability. Although it was not an operative factor for all of those interviewed, it is fair to say that the level of detection probability mattered in many cases. There are in effect two different levels of **d**, or detection probability. It was very high for those individuals whose current or future job depends upon maintaining perfect adherence to the law and whose primary avenues of detection include the media and staff members of political opponents. The qualitative findings from both the employer and the nanny interview material indicate that for these individuals compliance is driven both by detection probability and by the "penalty" of career consequences, which would follow on the heels of detection. In contrast, the level of **d** was very low for individuals whose only potential agent of detection was the IRS itself.

Remember that among the household employer interviewed, none had any personal experience of being caught, nor had they heard of any friends or acquaintances being caught. In fact, they had not heard a single anecdote of a household employer caught evading nanny taxes, save for stories in the media. Individuals who were not involved with government or politics perceived and experienced a detection probability of virtually zero. For these individuals, naturally, neither detection probability nor fear of the IRS penalty was an important issue. The single exception to this an employer who complied due to advice from a friend who worked as an IRS agent. Even in that case, the concern was with being sued by a former employee rather than being in trouble with the IRS.

I argue that this situation would best be modeled by the following two equations, the first for high detection probability, and the second for low detection probability. In the first case, the other factors of income and tax size, whatever their values might be, would be far less salient, making the model for HDP individuals essentially:

$$NTE_{HDP} = \beta_0 + \beta_1\mathbf{d} + \beta_2\mathbf{p}.$$

In the second case, the compliance of individuals with Low Detection Probability can be better modeled without d and without p, leaving just income and tax size as variables:

$$NTE_{LDP} = \beta_0 + \beta_1\mathbf{i} + \beta_2\mathbf{t}.$$

Both High Detection Probability (HDP) individuals and Low Detection Probability (LDP) individuals face the same IRS rules, and therefore the IRS penalty is the same in both cases. However, the HDP individuals also face an informal “penalty” of career consequences. These employers face job-loss or the loss of a presumably quite desirable prospective job. For them, the niggling IRS penalty is nothing compared to the cancellation of a confirmation hearing or the loss of a federal worker’s pension prospects. These consequences are of course perceived and valued differently and subjectively by each person, however, any model of nanny tax compliance must account for the impact of the deterrent effect of such a non-IRS penalty. On the other hand, for LDP individuals, only the penalty levied by the IRS would be operative. Therefore, with this broader definition of the penalty for nanny tax evasion, the results of the study do confirm the importance and the sign of the penalty variable as well,

$$\delta NTE/\delta \mathbf{p} > 0.$$

7.4.2 Taxpayer's Income

The taxpayer's income is another variable in the traditional model. As income increases, according to the model, the taxpayer will be more likely to pay the taxes owed, which is intuitive. The expected effect is that as income is greater, there is more tax compliance:

$$\delta E/\delta \mathbf{i} > 0.$$

However, with nanny tax compliance, this seems to operate only at very low levels of income. Several employers reported limited income as their motive for not paying despite other motivating factors such as altruism, ethics, and detection probability. Several employers referred to income constraints being a factor early in their careers in their decision not to pay, whereas now they are compliant. Perhaps the change is due to the employer's accumulation of professional experience as time passes, rather than simply due to their higher income later in life. At any rate, at higher levels of income there seemed to be no correlation between employer income and compliance behavior. Therefore, based on the interview results, I cannot state categorically that increasing levels of income are associated with increasing levels of compliance, as the general compliance model states. That is, I found $\delta NTE/\delta \mathbf{i}$ to be of indeterminate sign.

7.4.3 The Size of The Tax

The general model of tax compliance holds that, as is intuitively clear, the higher the tax bill, the more attractive tax evasion becomes:

$$\delta E/\delta \mathbf{t} < 0,$$

where **t** is tax size. However, among the employers interviewed, the size of the tax did not apparently decrease compliance at all. Those facing a small tax did not seem more motivated to pay than those facing a bigger tax. Ironically, the results indicated that employers facing a larger tax were more likely to pay than those facing a small tax. One interpretation of this result is that for part-time or occasional employees, the tax may be low, but the employer might be less likely to know about the tax liability. On the other hand, the employer of full-time workers might be more likely to perceive, and therefore respond to, the tax obligation. That is, it might be the case that the bigger tax bites, measured in the thousands of dollars, are perhaps more frequently paid than the two-figure and three-figure amounts of tax that employers may owe, but do not realize that they owe.

Three pieces of qualitative evidence lead me to challenge the importance of tax size in the traditional model. First, no employer ever referred to the size of the tax as a factor in their decision to pay or not. Second, employers who were compliant at least some of the time were usually quite off in their guesses as to the size of the payroll tax they owed. Third, a rough comparison of never-compliant employers with these sometimes-compliant ones showed that their tax size guesses were no closer to the mark. In other words, being relatively less aware or more aware of the tax size did not appear to be associated with either compliance or evasion. Based on this, I suggest that the tax size is not a significant driver of compliance behavior.

The size of the nanny tax is proportional to the size of the gross wages paid during the year. According to the model, we would expect the compliance to fall as the size of the tax rose. However, the household employers demonstrated no sense that their compliance hinged on or was even affected by the size of the tax. employers never mentioned the size of the tax as a factor in their decision not to comply. In fact, employers – even compliant ones – were fairly ignorant of the amount of the payroll tax rate, as we shall see later in the chapter.

7.5 Other Tax Issues

7.5.1 Third Party Information Reporting

Supportive of my hypothesis regarding information reporting, the interview results showed that all households owning a small business were, in fact, paying their nanny taxes. My hypothesis was that due to no third party information reporting, nanny tax evasion was likely quite high. There were two employers and two employees who described the role that business ownership played in their decision to pay nanny taxes properly. Remember, this represents four separate households: none of the employees interviewed had ever worked for any of the employers interviewed. It is well known among small business owners that the IRS has recently been focusing audit attention on their enterprises. Therefore, the detection probability faced by these employers is higher than it otherwise would be.

7.5.2 Does DC Matter?

As discussed in Chapter 2, Bloomquist and An found that the filing rate (defined as Schedule H's filed per 100,000 income tax returns in a given area) varies widely across the U.S. Washington, DC residents file the most of all. They file six times as many nanny tax returns as does the rest of the country. Also, IRS workers (studied by Bloomquist and An as an example of government workers) filed many times more returns than would be expected for their income and demographic profiles. My results confirm this finding. Six employers and twelve employees indicated that the consequences of detection on higher-level government employment affected compliance in their household. None, however, spoke of DC culture itself having an effect on their decision, e.g., having had bureaucratic experience in the past, or having acquaintance with Justice Department or Treasury Department officials (the IRS is part of Treasury), for example, giving them a greater sense of obligation to pay payroll taxes. This leads me to conclude that the nature of the market for professional labor in Washington is so dominated by government and politics that it shows up in increased scrupulousness regarding nanny taxes.

7.6 Lack of Employer Payroll Knowledge

Interview questions explored employer knowledge of certain aspects of payroll taxes: the size of the tax, the amount of time an employee needed in order to qualify for Social Security, and whether foreigners could receive benefits even if they returned to their home country (see Table 20). In the interviews I attempted to gauge employer knowledge of both the specifics of the process and the importance of doing it. Results confirmed both of my hypotheses regarding employer payroll knowledge: (1) that employers lack basic payroll knowledge and (2) that employers fail to recognize the consequences to the employee of unpaid payroll taxes.

Table 17: Employer Payroll Knowledge

Question	Correct	Incorrect	No Answer
Payroll Tax Size	3	14	13
Quarters Needed	3	9	18
Non-Citizens' Eligibility	9	4	17
Identification of EITC	17	8	13

During the interviews, I asked the employers four questions about Social Security payroll taxes:

(1.) What is the size of the employer's share of the payroll tax? In other words, what percentage of the employee's paycheck is owed by the employer in payroll tax?

(Answer: 7.4%.)

(2.) How many quarters of Social Security credit does an employee need in order to qualify for benefits when they retire?

(Answer: 40.)

(3.) Can non-citizens qualify for Social Security if they return to their own countries when they retire?

(Answer: yes.)

(4.) What is the Earned Income Tax Credit?

(Answer: Paid out through the tax system as a refundable credit, it partially refunds payroll taxes to low-income workers to mitigate the regressive effects of the payroll tax.)

This last question is connected to payroll tax matters in that employers sometimes justify paying under the table by pointing to the unfairness of taking taxes from low-income people. In fact, especially when the taxpayer has dependent children, the EITC can effectively make the net wage rate as much as 120% for a low-income worker.

Of the seventeen employers who gave an answer to the question "What is the size of the employer's share of the payroll tax?", three knew the size of the tax (7.4%) and six were within a percentage point. The other eight responses ranged from a low of 1.2% to 12.5%. Some employers stated that they did not know the answer and did not want to take a guess. Some employers took a guess but stated that they did not know the answer but were willing to take a guess. Of the 12 who tried to answer the quarters question, only 3 were correct, answering 40 quarters. The other nine guesses averaged 25.3, (which is off by 37%!), with a low guess of one quarter and a high guess of one hundred quarters. These two questions alone should indicate a lack of payroll knowledge among the household employers I interviewed. Thirteen employers hazarded an answer on the foreigner-eligibility question. 9 were right, responding that yes, non-citizens could not only qualify for Social Security, but could receive the benefits outside of the United States in retirement. Four answered incorrectly. The fourth and final question asked for an identification of the Earned Income Tax Credit. Fifteen employers knew something about it; fifteen did not.

7.7 The Connection between Employer Ignorance, Tax Complexity, and Social Norms

In their study of the financial aid application process, Dynarski and Scott-Clayton (2007) explain how its complexity stymies and discourages many low-income students and their parents. Parallels with nanny tax compliance are obvious: some would-be nanny tax filers are motivated to file but experience complexity as the decisive obstacle. Ultimately, for the rational person, the upfront cost in discomfort and time required should be outweighed by the benefit – financial aid in the financial aid application case and a clear conscience and peace of mind, etc, in the nanny tax case. However, apparently it is not, resulting in economic losers, among employers and workers alike. Respondents did testify as to the time-consuming nature of nanny tax compliance. The IRS estimate of three and a half hours for handling yearly federal nanny taxes is an underestimate. As could be seen in the previous chapter, employers in this study complained about the hours lost to record keeping and arguing with tax officials. Dynarski and Scott-Clayton also point out that many of the students that need financial aid are not culturally set up to access it (e.g., familiarity with formalized interactions with a benefit – or opportunity – administering system.), given the very steep learning curve of the student financial aid application process, which is analogously steep compared to that of the nanny taxes. There are two paths: ignorance about these things can be continued and supported by peer norms of not learning about it, or remedied by interactions with peers who do have the expertise. The nanny tax compliance analogue would be business experience or exposure to tax compliance procedures beyond individual income tax preparation such as non-profit administration. In the present study, most employers bemoaned their skill-mismatch with the nanny tax compliance challenge. However, those employers with some of these skills were more comfortable and more likely to meet the demands of nanny tax compliance filings.

Besides their verbal reports, further evidence that complexity is a deterrent is that some employers are offering health insurance as an alternative to filing the taxes. Three employees had experienced this or told me of other employees experiencing it. In the employer group, several respondents said they had heard of health insurance being offered instead of payroll tax coverage, although none had this arrangement themselves. (Neither group was asked specifically about health insurance; these comments were volunteered, so I do not have a complete picture of how extensive this is within my sample.) Paying a monthly premium is easier than calculating and filing ongoing payroll taxes. But imagine a corporation dodging payroll taxes because they offer insurance instead!

As discussed in the literature review, there is evidence that social norms affect moral behavior in financial matters (Keller, 1997). Hardin (2000), a legal ethicist, theorized that nanny tax evasion among individual who are otherwise scrupulous and concerned with peer approval undermines the notion of a generalized norm of tax compliance. On the other hand, National Taxpayer Advocate Nina Olsen, in an address to the 2007 IRS Research Conference observed that overall, the fortunately high level of general tax compliance in the United States probably results from a social norm of taxpaying rather than from enforcement. Interestingly, my results indicated that the degree to which an employer identified with the role of employer did not matter, nor did growing up with a full-time employee working for their household seem to matter. However, their *current* peers' behavior *did* matter – excerpts from interviews in Chapter 6 make this clear – thus strengthening the case for overall social norms as an important determinant of nanny tax compliance. The results of this study indicated that when interview subjects had active networks and used them purposefully to acquire information, then they learned quickly. This was true of both employees and employers. Two respondents told of sending out emails to friends who had already returned to work (asking what they did about nanny taxes) and one told of asking all her friends for advice about whether to pay. However, none of the subjects reported awareness either of a negative consequence to non-payment, nor even a detection event, so it was impossible to explore the journey of such a report through a social network.

7.8 Household Issues

The results of this study illustrate the ways the household differs from the marketplace as a result of features such as privacy, autonomy, personal intimacy, and uniqueness or individuality. It is a place where personal relationships are more likely to affect labor relations than in market enterprise workplaces. Admittedly, this can have positive as well as negative effects, but the interview material provided many examples of the downside for household employees. For example, some household employers seem to feel labor laws and payroll tax obligations are optional. (Recall the "substitution" of health insurance for payroll tax coverage.) Many respondents do not identify as household employers; that is, they feel estranged from that role and from its responsibilities. Third, they display attitudes towards their employees that often appeared to be governed more by personal feelings than by professional objectives.

Three study participants reported occasionally hiring people known to them in order to help them out financially. They conceived the desire to help the person financially first, then looked around their household to come up with some work that needed doing. Finding an acceptable and dignified way of benefiting the individual held priority over getting the household work done. Yet these jobs still represent household employment, and create payroll tax obligations. These three employers, two partially compliant and one never compliant, were especially resistant to the idea that they owed Social Security payroll taxes on these wages; they protested that they were providing a dignified hand-out and were offended that the government would levy taxes on that money.

7.8.1 Caring Labor

As discussed in the literature review, caring labor – care giving to children, elders and the ill and disabled – is undervalued in our society economically (wages for these types of labor are not what they should be) as well as undervalued in terms of appreciation and respect. Nonpayment of household employment payroll taxes – whether by accident or on purpose – reflects this undervaluation.

The language used by the some employers reflects the lack of respect for nannies and housekeepers: some employers used the words “split,” “share” and “give,” when talking about their employees. This objectification of the employed person carries an overtone of possessing not just that person’s time but the person as well. In addition to the direct ways of not respecting these caregivers, the employers indirectly disrespect the labor of domestic workers by failing to carry out the responsibilities incumbent on them as employers. The interview results excerpts given in Chapter 6 are replete with examples of how employers failed to take the time and energy to focus on the domestic worker’s presence and to handle ordinary employer responsibilities. All of this indicates the low regard in which the occupation is held. No in-home speech therapist, visiting nurse, or personal trainer would suffer or allow such disregard. Twenty six of the household employees I interviewed (almost ninety percent) reported suffering unpleasant or unjust treatment, usually earlier in their experience in the U.S. but occasionally with their current employer. Examples include being hit with a stick by a child who was not scolded, being spat on by teenage children, and having their job given away while visiting the Philippines despite having made proper arrangements.

7.8.2 Bargaining

Analyzing a married couple's decision to comply – to spend the household's time and money on tax compliance – means thinking about two individuals who may not agree about how to maximize the household's utility. Household bargaining models hypothesize that when two spouses disagree, the spouse with the higher income or the greater assets has greater bargaining power (Lundberg and Pollak, 1993). My interview results provide anecdotal support for this hypothesis: among those interviewed, the higher earning or greater asset owning spouse did make the decision in disagreements over whether to pay the nanny taxes. Disagreements were reported in three couples. This includes husband-wife pairs of interviewees as well as couples only one of whom was in the study. In the first situation, A had a much lower level of assets than B both coming into the marriage and during it as well. Although A is not fond of the household employee and is uninterested in her pay arrangements, the employee's taxes are paid as a result of B's decision to do so, which arises primarily from B's concern for the employee's well-being.

The household of C and D provides a second example. Here too, one partner clearly held greater assets. One spouse, C, had a history of not paying nanny taxes when single and did not want to as a couple, either. The other spouse, D, had a history of paying nanny taxes when single, wanted to continue being nanny tax compliant, and the couple did pay nanny taxes.

A third example is E and F. In that case, one spouse earned far more. They disagreed, with F, motivated by ethical concerns, wanting to pay. E did not want to, due partly to the difficulty of doing so and partly out of feeling it was an unreasonable governmental demand on the household. Yet F had decided to pay and had done the necessary research. Only the refusal of crucial employees to continue working if taxes were paid blocked his intention. The experience of three couples is not a basis for generalization, but it is an interesting result.

7.8.3 Pressure

Another gender-based difference in nanny tax behavior that emerged clearly was that the only reported pressure on employers came from nannies' male relatives, rather than from the nannies themselves. In two cases, a nanny's individual male family member – one a son, one a husband – successfully pressured the employer to start paying nanny taxes. Furthermore, one employer experienced a male member of their own family unsuccessfully agitating for nanny taxes to be filed based on his concern for his own political future. Surprisingly few employees reported self-advocacy after the fact of employment. Five employees reported being resolved at the outset not to accept a job offer without agreement that nanny taxes would be paid. Among themselves they urged one another to ask about taxes during employment interviews. However, no employee reported pressuring employers to pay; no employee reported asking employers to initiate payroll coverage after the fact. Of thirty employers, only two said that an important reason for employers' noncompliance overall (not for themselves specifically) was a worker not wanting coverage. However, all thirty of the employees I interviewed wanted coverage themselves. The employees did not point to an employee's wish to be paid under the table as a noncompliance factor for the employers they were familiar with. Being undocumented was the only related reason employees gave as an employer noncompliance factor. Remember, they were a loose affiliation of Filipina immigrant nannies working in an affluent neighborhood in Washington, DC, where this sort of tax compliance is entwined with career ambitions. However, even more importantly, they all understood, valued, and discussed the future stream of retirement income that would come to them in the Philippines as long as they had ten years of covered employment. The perceived value of the benefit stream is affected by their assumption that they will retire to be with the rest of their family in their home country, where the lower cost of living increases the purchasing power of the funds.

7.8.4 The Mini-Welfare State

Three employers firmly stated that they well understood their obligation to contribute to the well-being of those less fortunate, that in fact they had hired these people as a favor to them in the first place. Those employers were attempting to be mini-welfare states: they created a job and in some cases provided other safety-net items such as emergency health care. When employers hired people known to them with the primary purpose of putting money in their pockets, they were then especially resistant to nanny taxes. They felt that they were already providing plenty of social welfare. Few people have a small business that they can use to give someone a job, but many people have a bit of household work or yard work that they can use to help out someone else financially. However, these employers are still liable for payroll taxes on this largesse.

7.9 Force-Field Diagrams and Analysis

One way of analyzing an employer's ultimate tax decision is by representing this yes-no decision as the sum total of opposing forces. A force-field diagram can capture the conflict between combinations of these motives for a given individual. This requires thinking of the employer's final position on the payroll tax question as lying along a continuum between enthusiastic compliance and whole-hearted tax evasion. That is, the outcome of the conflicting motives can be modeled as the mathematical sum of assorted positive and negative vectors. As vectors have both direction and length, the graphical representation of each motive or force influencing the decision has two components. One is a direction (towards compliance or towards evasion); the other is a length, connoting the strength of that particular force. To demonstrate this analysis, I first discuss and then diagram five actual payroll tax decisions drawn from the interview material. An "I" represents the halfway mark between the two "poles" of completely motivated to comply and completely motivated to evade. An "X" marks the approximate final position of the particular employer on this continuum.

The five force-field diagrams below represent five episode-specific nanny tax compliance decisions taken from the interview material. The examples represent five distinct employers, but as employers changed their behavior between employees and over time, they are snapshots in time and not necessarily representative of the employer's tax decisions over time.

7.9.1 Force-Field Analysis of Several Employers' Nanny Tax Decisions

Employer #1:

This foreign employer would have risked the loss of her husband's very good job, which could jeopardize their stay in this country, if they had evaded. Her battle with nanny taxes involved her dislike of her employees and her feeling that they did not deserve anything more from her than their minimum wages. Fear of detection probability trumped dislike of employee and complexity.

EVASION-----------------------------|----------X-----------------COMPLIANCE

←-----------------dislike of employee

←------------------complexity

fear of detection------------------------------→

Employer #2:

This employer was also not very fond of her employees, and felt they took advantage. However, she faced no such detection-probability-and-penalty combination, as did Employer #1. Despite having been compliant in the past for an employee she cared about and admired for her work ethic, the complexity and difficulty combined with a sense, "Why should I have to do it when no one else does?" easily won out over pressure to pay from a family member. She was quick to point out how no one she knows pays. Note that ignorance was not a factor.

EVASION------------X----------------|---------------------------COMPLIANCE

family pressure ---→

←--- complexity

←--- social norms

Employer #3:

Employer #3's determination to learn to pay nanny taxes was fueled by her personal connection with her nanny. She also felt strongly about her own retirement income security and this translated into concern for the nanny's Social Security benefits. This single, gay woman learned how to do nanny taxes and was motivated to keep going.

EVASION----------------------------|-----------------X-----------COMPLIANCE

←-----------ignorance

←----------- complexity

altruism ---→

Employer #4:

This employer, who was also a single new mother, cared about her nanny and was concerned with her well-being. Her political values were quite progressive and worker-oriented, apart from the specific employee. For Employer #4, altruism was the major reason she did not pay the taxes. Despite some concern about being different from her very law-abiding, affluent family and their tax-paying norms, this employer did not want to pay payroll taxes for the nanny because it would be "taking money away from her."

EVASION-------------X---------------|---------------------------COMPLIANCE

social norms--------→

←---altruism

Employer #5:

Employer #5 reported knowing other mothers who were paying their nanny taxes. However, she did not receive information or assistance from them and had to overcome the barrier of ignorance in figuring out how to file properly. Her awareness of her peers' compliance behavior combined with her concern for her employee's retirement security to propel her over the line into compliance.

EVASION-------------------------------|--------------------X-------COMPLIANCE

←-----------ignorance

social norms--→

altruism--→

7.9.2 From Conflict to Moral Development

Long-standing political views about the importance of welfare state provision for the poor and old compelled one male employer to pay for each of his employees. Although the important legislative branch post he held would have made a different person pay as readily, this individual was governed by an attitude about the nation's responsibility to a retiring employee. At the same time, he made the most bilious remarks among thirty interview subjects about bureaucrats administering the tax system. Another example of competing pressures was a man who gave patronizing but lavish financial support to his employees. He was in conflict between his contempt for the household payroll tax and persistent pressure to pay the nanny tax from a male relative of his housekeeper.

Some women described a sense of mastery, of victory, which they enjoyed as a result of figuring out the taxes. It was "about them," rather than, "about their employees." Their ethical motivation to file the taxes was in conflict with their temptation to quit in the face of a payroll tax system geared towards businesses and difficult for amateurs to navigate. On the other hand, several knowledgeable employers felt pricks of conscience about the tax evasion they practiced, but soothed themselves with the assurance that no one else in their circumstances – no one they knew, at any rate – was fooling with these taxes. Another was badgered by a politically ambitious relative to get compliant, but she referred to the prevailing social norms among her affluent (and retired) friends when explaining her resistance to that pressure.

A key insight from this research has been that the analysis cannot be left at the level of conflicting motives. This is because pairs of employers were seen to do the same thing (e.g., evade) for different reasons, as well as being driven to different decisions by the same motive (e.g., altruism). For example, altruism strongly motivated many employers to pay (e.g., Employers #3 and #5 in those examples), but two employers were restrained from paying by their altruism (e.g. Employer #4 in the examples). Both are at the "noblest" level of moral development because they are guided by their own principles, regardless of the law or of others' influence.

A second example would be social norms pushing Employer #2 to evade and Employer #5 to pay. Here, the employers are functioning in Kohlberg's second stage, where social approval drives moral decisions. Yet they made opposite choices. Policymakers have an opportunity here to shape these social norms so that the more "easily led" employers will pay.

Most interesting for our purposes is the fact that some people at *each* stage are paying and some are not. For example, Employer #1 was motivated to pay by her fear of detection. Employer #2 was motivated to evade by the low odds of being detected. Presumably, Employer #1 would not pay if her husband had a low-profile job. Presumably, Employer #2 would pay – despite her perception that her same-age neighbors do not – if she had some chance of being considered for high federal office.

At the second or "conventional" stage, Employer #5 was influenced by the norm of paying among her fellow new moms, while others were quick to justify their noncompliance by pointing out how no one they knew was paying. At the third or "post-conventional" stage, Employer #3's and Employer #5's concern for welfare of employee motivated her to be compliant, whereas Employer #4's altruistic motivation (which was in conflict with the social norm she perceived around her of taxpaying) led her to evade. In other words, under the current circumstances, people who are more "mature" or at a higher stage of moral development, can actually be found on both sides of the compliance fence. Likewise, people who are a little more likely to follow the crowd in making moral choices, are also to be found both evading and complying, whichever their peers tend to do.

Of course, there is a distinction between those who paid out of concern for a specific employee versus those who referenced ideas of social justice, a commitment to social welfare, or an appreciation for the Social Security system. However, both positions involve ethical stances whether situation-specific or of long standing. I consider the two together not just because they are both at Kohlberg's third stage, but also because from a practical point of view policy-makers are just as incapable of influencing directly either a person's altruistic approach to an individual or a philosophical point of view towards social provision.

7.10 Summary

A behavioral economics approach to tax compliance clearly offers insights that go beyond the simple cost-benefit analysis implied by ordinary tax compliance models. Compliant household employers certainly make economically irrational decisions when they file payroll taxes. The odds of getting caught, as discussed in the first chapter, are exceedingly low. Something else is driving their compliance. Policymakers need to capitalize on this insight when seeking to turn up the heat on noncompliant taxpayers. Behavioral economists have also demonstrated that bureaucratic barriers to successful participation in an overly complex process can create program failure, despite a motivated target audience. Nanny tax evasion exemplifies this behavioral economics finding. The employer interview material in this study demonstrated that many motivated employers were disappointed and frustrated by their failure to succeed in filing nanny taxes. These were not heedless or stingy families; rather, the process is time-consuming, frustrating, designed for businesses not households, and needlessly complex. My ethnographic research over a two-year period, which included sixty interviews with direct participants in household employment, demonstrated roles for ignorance of the law, difficulty, social norms and interpersonal relations, and altruism. Furthermore, an analysis of the material highlighted the problem of the household as an virtually unregulated workplace. The next chapter will discuss implications of these findings, present some policy recommendations, and give several suggestions for future research.

Notes

[1]Although subjects were legal to work at the time of the interviews, this is not to say that all respondents had always been documented. Some reported having worked for years in the U.S. prior to obtaining their green cards.

[2] Chapter 3 contains details about their remittance amounts and frequencies as well as the number of people to whose support they were contributing.

[3]Evasion is the event modeled, but since prob (E) = [1 – prob (C)], where E is evasion and C is compliance, the subsequent discussion of compliance factors is simply the mirror image of evasion factors.

CHAPTER 8

CONCLUSIONS AND POLICY RECOMMENDATIONS

8.1 Introduction

The results of the present study have important implications for the economic modeling of tax compliance, for household theory, and for public policy. Underreporting is a serious problem. My quantitative results establish a lower bound for the nanny tax evasion rate. For the year 2006, I calculate the lowest possible evasion rate, based on government labor statistics for household workers, to be 70.0%. This is a conservative estimate because we know that so many domestic workers go uncounted. General income tax evasion rates for individual taxpayers are ten times lower. The analysis of IRS tax return data on household employers yielded the finding that very few households paid large wage bills. In 2006, 98% of household employers filing returns paid under $25,000 in household wages; in fact, 25% paid under $4000. In addition, I found that only 48.4% of Schedule H filers have at least one child in the home and/or take the Child and Dependent Care Credit, suggesting that perhaps as much as half of all household wages are paid for tasks other than childcare or dependent care. For the employers of paid caregivers, filing payroll taxes is coincidentally offset by use of the Child and Dependent Care Credit, but at higher levels of wages paid, this credit is outweighed by the money potentially saved by evading.

The several years of background and ethnographic research surrounding this dissertation indicated that in general household employers lack awareness of the (currently $1600) threshold and of the strict tax definition of household employment.

Even some of the well-educated professionals I interviewed in Washington, DC, remained ignorant on the subject to a surprising extent. In addition to simple lack of information, the ongoing correct filing and payment of annual federal and quarterly state household employment payroll taxes represent one of the most daunting household administrative challenges around. Ignorance and complexity are helped along by prevailing social norms of not paying these taxes, unless foreseeable career consequences exist.

Certainly some people skip payroll taxes if they think they can get away with it. The traditional model components of detection probability and of penalty level certainly apply to the special case of nanny taxes, with two provisos. We must understand detection probability as referring as well to non-IRS pathways, such as research by the politically-motivated and by the media. In the same way, we must understand the penalty level as including career foreshortenings as well as IRS tax penalties and fees. However, personal ethics and altruism play a fascinating role in that they can both promote and retard household employer payroll tax compliance. Conversations with the interview subjects convinced me that ethics and altruism sometimes constrained employers from paying a tax they felt would not be in the best financial interest of their low-income employee. At the same time, other employers insisted that it was their personal ethics and/or their strong desire to promote the retirement well-being of their employee that determined them to overcome all state and federal obstacles to paying their payroll taxes.

8.2 Implications for the Traditional Model

A close analysis of the qualitative results leads to three observations in connection with models of tax compliance. First, individuals who had government employment or aspirations to a political future did experience detection probability and its associated career-related "penalty" as compliance drivers. However, for nanny tax evasion, there are only two levels of detection probability – very high or very low. Both levels are associated with a specific penalty. The high probability of detection by media scrutiny is associated with a substantial career impact penalty, a significant and effective deterrent to payroll tax evasion. For these individuals the detection probability and threat of the career penalty are large enough to render the two variables – income and tax size – irrelevant. The low probability of detection by the IRS is associated with the ordinary IRS financial penalty for income tax delinquency. It is not different in character from income tax penalties and fines; it is also one that the employers interviewed seemed more than willing to risk. These individuals perceived neither a detection probability nor a penalty that was sufficiently high to deter their evasion, all else equal.

The second implication for tax modeling was that the income variable appeared to behave as it does in the general model at low levels of income, but not at higher ones. I attribute this partly to the fact that although income taxes are proportional to income earned, nanny taxes are proportional only to wages paid. Although household wages paid would certainly have some relationship to the household's budget constraint, taxes due on wages paid are only a function of the employee wages, not a function of the employer's income.

Finally, nanny tax compliance among employers appeared to be unaffected by the magnitude of the tax, which is the fourth and final of the traditional compliance variables. In fact, there was some evidence showing that, when employers were divided into compliant and non-compliant groups, the non-compliant were no more likely to be acquainted with the actual size of the payroll tax they were supposed to pay than were the compliant. This implies that the size of the household payroll tax owed was not a driver of compliance behavior.

8.3 Conflict

Individuals make their economic decisions in dynamic environments and experience multiple constraints on their choices. Inside the individual employers interviewed, bureaucratic difficulty warred with altruism, personal ambition warred with ignorance, dislike for a housekeeper warred with anxiety over becoming another rising star cut off by unearthed payroll tax evasion. In three out of the three cases of intra-household disagreement studied here, the more affluent spouse chose how to resolve his or her own tax conflict. The most interesting feature of the interviews was the variety of experience and the human weaknesses confided in anonymity.

Altruism motivated employers: the welfare of the employee entered the utility function of the employer in many cases. This requires an analytic approach that transcends an individual-centered and self-interest-based model. Furthermore, altruism seems to motivate both compliance and noncompliance; as discussed in the previous chapter, this depends on the employer's interpretation of the employee's best interests rather than always resulting in tax payments. As was demonstrated in the force-field analyses in Chapter 7, some household employers experienced a great deal of conflict as they were pushed towards or pulled away from their natural choice to comply or evade payroll taxes by other factors. Some would have evaded except for fear of detection or another pressure. Some would have paid except for obstacles they could not or would not overcome, problems that outmatched their commitment to pay. Others were able to gain the information and skills needed, develop a tolerance for state unemployment tax systems and end up in an equilibrium position of ongoing, quarterly compliance. Using Kohlberg's stages of moral development as a classification system, I was able to identify employers all the way up the ladder from obedience to tax law out of fear of the consequences to obedience to the tax law because it was in agreement with deeply felt ethical positions. Interestingly, I was also able to identify employers who were evading for reasons of stinginess or laziness as well as employers who evaded after careful moral reasoning about the well-being of the employee. The main implication of Chapter 7's force-field analysis of tax compliance decisions is that there was often a close contest between opposing motives. Therefore, just reducing a barrier a little bit, or boosting a motivating factor a little more could turn defiance into compliance.

8.4 Implications for Household Theory

Nanny tax compliance is a good example of the need for researching and analyzing the household as distinct from the marketplace. The caring labor taking place in households is a special category and is especially tinged with the disregard our society seems to have for non-market activity. The study's results showed that some employers objectified their employees conceptually to a disturbing degree. As noted in

Chapter 7, employers used language such as “splitting,” “giving,” and “sharing” in reference to people. To illustrate this point, consider the fact that although a household may have non-domestic help in the form of “our tile guy,” or “our computer person,” that sense of possessiveness that comes from the word “our” is nothing compared to the ownership implied by being able to “split a nanny” with someone, or to “give you our housekeeper while we’re out of town.” Such language used by the employers studied here reveals the possibility of a domestic worker occasionally being considered a possession or asset of the household.

8.4.1 Isolation

Part of the problem is that the household itself and therefore employment in a household is characterized by isolation and particularity. Recall Hagan’s (1998) sociological study of the male/female differential in successful amnesty applications because the men worked in companies and the women worked in private homes. Companies were routinely able to give the workers documentation of their work and wages. The largely female household employers were less able or willing to provide similar proof of work and wages. I would argue that being a household employer could be challenging for amateurs and being a household employer trying to follow the rules is harder. There did not seem to be any sort of network of fellow household employers whose experience a new employer could draw on as there might be in the business community.

This isolation and non-standardization of the household also arises from the fact that the household is not a professional employer. This causes a lack of payroll skill and payroll focus. The household employee suffers as each household employer sufficiently motivated and interested in complying reinvents the wheel teaching themselves basic payroll procedure. (Compare this with a company, which ordinarily does not ask itself whether it is “motivated and interested” in complying!)

An additional implication is the importance of time lost to household employers (and the value of that time) as they struggle with the taxes. To some extent, the employer suffers as well from their amateur status. A good deal of time is expended in compliance. Although my study did not ask employers to estimate the time consumed, over half of the at least sometime compliant employers referred to the time used up. Others focused on the cost of purchasing help. Three specifically reported that the taxed owed were laughably low compared to the cost of the extra hours billed by their tax accountant. Three other sometimes-compliant employers reported that they used the (much cheaper) specialty nanny tax companies and did not mind the expense; one reported a ghastly experience with taxes left unpaid by such a company.

8.4.2 Privacy, Autonomy, and Interpersonal Relations

The household is also private, autonomous, unregulated, and unsupervised, with real consequences for domestic workers. These range from the cases of human trafficking, slavery, and sexual abuse to cases of emotional abuse and other forms of personal disrespect and mistreatment. It is fair to say that, on average, household employers have fewer checks on their behavior than they would in non-household places of employment. These homes-as-workplaces and often amateur employers do not have enforceable worker protections.

A corollary to this is that the household employment relationship is more personal and less formal than a marketplace one. This adds to the difficulties a domestic worker faces. Salazar Parreñas' (2000, 2001a) research documents the vulnerability of the worker – in her case the domestic Filipina worker – to the "behind closed doors" whims, neglect, and criminal behavior of household employers the world around. Of course, this intimacy with the employer can have positive as well as negative aspects; the interview excerpts in Chapter 6 include instances of significant assistance to employees in crisis.

Does the tax treatment of nannies differ from that of other household workers perhaps because of a greater emotional connection to the family? My results did not indicate any difference. I believe this is because – speaking strictly of those employees interviewed – these women were nannies when young children were present and were housekeepers (maids, that is, not managers of a staffed household) in the absence of children. The employees defined themselves as nannies first, but accepted housekeeper status when necessary. From the employers' point of view, I discerned no difference in felt intimacy or felt obligation towards different types of employee, with the exception of groundskeepers, who did not evoke either strong negative or strong positive emotions in the employers interviewed. In fact, surprisingly, the "housekeepers" were often highly prized by employers and energetically retained through good treatment and benefits because they were needed for the dogs in the household. Two employers described the housekeeper as being there first and foremost for the care of the dogs. During this research, I heard of instances of the nanny being contacted while the employer was traveling internationally in order to hear "how the dogs were doing."

As reported in Chapter 7, four distinct employer orientations towards employees emerged in the interviews. The first was an active resentment of worker as intruder into the household . The second was a refusal to acknowledge the existence of the employee, a refusal that was sometimes due to extreme social or career time pressure. The third was a sense of partnership in a common domestic effort to produce a quality household for a purpose such as childrearing or entertaining. The fourth orientation was an altruistic response towards the worker, a response that can verge on paternalism. At the paternalistic end of the spectrum would be such as excessive interference or control coupled with the extension of extra material benefits or protection, use of employers influence, etc. Several employers with this fourth attitude towards their employees expressed undying commitment to the well-being of former employees and enjoyed in return a particular kind of subservient positive regard and loyalty from them. This paternalism on occasion can be beneficial to the employee but may come at an emotional price because it is not an exchange among equals. My research did not explore what factors underlay the strength of employer's identification with the employer role. However, there was a clear association between the employer's parents ever having had a full-time employee and the now-grown employer identifying with the role themselves.

In their article on geographic variation in household employment payroll tax filing rates, Bloomquist and An (2006) suggest that an important determinant of compliance is likely to be the presence of a large undocumented worker population available to do domestic work. Because of increasing awareness and enforcement regarding undocumented workers, employers might be less willing to gamble on an employee's veracity concerning their immigration status. Employers may be reluctant to link themselves with immigrant workers through payroll tax returns. One employer interviewed refrained from paying taxes exactly because of anxiety that INS trouble might ensue despite the employee's insistence that she was here legally. This study did not address the issue of undocumented labor as an alternative labor pool, so these results cannot be used to address that question. Future researchers should also ask whether the increase in undocumented workers is lowering the tax compliance morale of those who employ legal workers.

The social norm of devaluing and disrespecting paid domestic workers is evident in the laxity of domestic labor regulation. Unpaid payroll taxes are a key feature of this laxity. The interview results illuminate what a slippery slope the household can be when it is someone's workplace and someone else's private, unregulated, autonomous "castle." Household employees cannot defend clear personal boundaries, feel confident about upholding them, or insist that others respect these boundaries unless a social and legal framework backs them up.

8.5 Policy Recommendations

One important implication of this research is that several different approaches are required in order to bring different types of taxpayers into the fold. According to Kohlberg's stages of moral development framework, factors affecting an employer's motivation to comply – fear of being caught, peer influence, and concern for the well-being of employees – are at work at every level of ethical functioning. These motives should be encouraged to work in the desired direction, that is, towards paying. The following recommendations respond to the identified compliance determinants of extremely low detection probability level, tax complexity, lack of employer awareness, poor social norms regarding paying one's nanny taxes, personal ethics.

(1.) Change Form 1040 to include a checkbox about household employees. In order to increase awareness and increase the penalty of household payroll tax evasion, one line on the Form 1040 should include a required checkbox which attests that the taxpayer has not paid any one person more than $1500 that year to perform labor in their household, including all cleaners and babysitters and lawn care workers. Line 62 asks for the total amount calculated on Schedule H, but does not inform the taxpayer about household employer payroll taxes. In other words, the taxpayer would have to take a positive action (checking a box) to indicate they did not pay a household employee more than the threshold amount. This would inform people of the definition of household employee and tax threshold. *It would also require those evading household payroll taxes to make a specific dishonest statement on this issue by checking the box.* Raising the issue on the tax form itself would galvanize the professional tax preparation community, which exhaustively tracks and scrutinizes changes to each year's tax forms. Raising the issue on the tax form would also spark a brief hour of media interest, as it would signal a new enforcement emphasis on the part of the IRS. It would get the attention of both the intentional and the accidental nanny tax evaders.[1]

(2.) Simplify the tax code. Some incremental changes include (a.) drop the requirement to file quarterly state returns, given that staff fluctuations are far lower in households than in businesses (b.) drop the state-by-state adjustment of FUTA calculation on Schedule H, which accounts for over two thirds of the lines on the form.

A radical option would be to shift to a stringent system in which all household staff would have to be officially registered as such in order to facilitate government oversight of their payroll taxes In principle, the IRS, the state legislatures, and Congress could increase nanny tax compliance with tax simplification. In practice, the task of overall simplification is unrealistic as it would require significant inter-governmental collaboration. However, some incremental household payroll tax reform opportunities stand out. At the state level, perhaps treat households as a special category of employer, perhaps even drop the requirement to file every quarter, moving to an annual system, as the IRS did in 1996.

(3.) Target delinquent employers with a public information campaign. We must raise household employers' awareness of their legal obligations and partial responsibility for the retirement income security of their employees. Such a campaign would explain the similarities between household employers and employers in the marketplace, who already face a norm of paying payroll taxes. Teen fathers provide a good policy analogy to household payroll tax evasion. Urban social scientists are concerned with building up low-income, absentee fathers' sense of responsibility for their children. The problem involves social norms as well as a skill and resource deficit. Policy programming aimed at teen fathers uses awareness interventions that aim to change norms as well as to provide resources, in order to benefit their children. In the same way, targeting household employers directly will aid the household employees.

(4.) Teach household employers how to file these taxes. The isolation and the non-market nature of household activity creates barriers to learning general payroll tax knowledge, skills as well as the procedures specific to nanny tax payments. However, these are communicable skills. The greatest drawback to IRS materials remains that they must cover all scenarios and must also avoid presenting taxpayers with loopholes and therefore are constrained from presenting a simple roadmap which would be sufficient to guide the large majority of household employers.

(5.) Increase private tax accountants' knowledge of household payroll tax rules. Given the key role of professional tax preparation, particularly for affluent households, it would be good to enlighten accountants so that they might pass that information and awareness along to their clients. At lower income levels (and correspondingly lower levels of household payroll tax owed), simply intervening successfully in this manner with such companies as, for example, Turbo Tax and H&R Block, with their national coverage and market penetration, would significantly raise the number of household employers paying properly. At present, they do not educate either their employees or their clients regarding the definition of a household employee nor regarding the low threshold wage amount which triggers the tax obligation.

(6.) Boost detection probability by increasing audit attention to household payroll taxes. According to both household employers and household employees, the possibility of detection and consequent job loss or consequent foreclosure of high-profile government career opportunities drove a great deal of household employment payroll tax compliance. Therefore, boosting detection probability for households without political ambitions is a key policy recommendation. Unlike ordinary income tax evasion, there is a party – the employee – who often has an economic interest in enforcement. Hence an effort to educate workers and their advocates to alert state-level employment commissions anonymously about non-compliant employers might produce results.

(7.) Broaden the range of jobs that can generate this same kind of concern over detection probability to include non-government jobs. Corporate policy can affect nanny tax compliance. For example, this researcher was told by an anonymous industry expert that a certain investment bank has implemented an unprecedented policy of requiring high-level employees to sign a statement that they are tax compliant in all ways, including compliant with household payroll taxes.

(8.) Increase IRS scrutiny of household payroll tax evasion. The IRS could target likely household employment payroll tax evaders based on tax return information. The IRS could search for two high-income parents of children from birth to school age who do not take the child care credit (which is available even to affluent families albeit at a reduced level). This profile might indicate an employee being paid under the table.

(9.) Teach household employees the basics of payroll taxes. At least make any decision to work under the table an informed decision. Teach domestic workers the benefits of building retirement credits and encourage them to insist on payroll tax coverage at the initial interview. Give them resource materials to enable first-time employers to register as household employers and organize their paperwork.

(10.) Raise awareness about the EITC as a mechanism for returning payroll taxes. Because some employers shy away from filing household payroll taxes due to concerns about the employee needing all of the money, we also need to raise awareness of the EITC as a mechanism which returns payroll taxes collected from low-income workers.[2] Many employers do not know that the EITC does not have to be a once-a-year refund but rather folded in with each paycheck. Specifically, we need to connect domestic worker labor organizations with ongoing efforts to promote filing for the Earned Income Tax Credit among low-income workers

Naturally, these proposed policy changes would have different employment and earnings effects on household workers. These effects would differentially impact those who work on the books, off the books, and without papers. Perhaps undocumented workers would face a harder time obtaining domestic work. Ideally, however, an overall move towards greater enforcement, alterations in social norms towards payment, and higher compliance rates would aid in professionalizing the industry as well as bring more low-income workers within the protections of the U.S. social insurance system.

8.6 Limitations and Suggestions for Future Research

If anonymized household-level IRS data on payroll tax filings became available to researchers, one promising direction would be to extend current quantitative work on nanny taxes by exploring the effects of demographic and income characteristics on the amount of nanny tax paid. The limitations of existing data prevented me from analyzing the effects of such demographic variables as marital status, number of children, AGI, and other variables on payment of household employment taxes. I am convinced that analysis at this level would yield information useful for enforcement purposes.

There were only sixty participants in the qualitative portion of this study, thirty household employers and thirty employees. Future qualitative research should include greater numbers of participants. It would also be informative to conduct research on the compliance behavior of employers living in other parts of the country, especially in areas where the domestic labor market is not dominated by migrant workers, either legal or illegal, in order to investigate the household employment issues separately from the migrant worker or nationality issues. Because the interviews were conducted in Washington, D.C., the results are especially not generalizeable to the rest of the country, due to the unique administrative and political features of that labor market. Furthermore, the small sample size and the case study nature of the research prevents the employer results from being generalizeable even within the city of Washington. It should also be noted that the employees discussed by employers in employer interviews were not, by the same token, representative of all employee experiences.

Likewise, the employee-based results are not to be taken as representative of the experiences of domestic workers of all nationalities in the Washington, DC, area, nor even of all Filipina domestic workers in the area. By design, the sample of household employees included only legal Filipina workers. Future research on household payroll tax compliance could address compliance among employers of legal migrant workers of other nationalities as well as of American domestic workers. Note however that in studying undocumented workers, the issue of working without papers would likely confound the issue of employer tax compliance unless handled very carefully.

It would also be interesting to study workers with children living with them, as their tax behavior might well be affected by the significantly larger incentives for low-income parents to file income taxes as opposed to non-parents. Few workers in this study had children living with them, but workers with children might be easier to engage in a push for employer payroll compliance due to the size of the EITC for low-income mothers and fathers.

This dissertation drew upon both quantitative tax data and qualitative research with sixty human subjects. As with other interview research, the conclusions reached here can be only as accurate as the responses obtained in the course of the research. Researching tax evasion – both accidental and purposeful evasion – entails discussing the possibility of illegal actions and ethical shortcomings. This researcher took pains while recruiting, enrolling, and interviewing each employer and employee respondent to imbue the process with patience, with respect, and with the spirit of positive human inquiry; the final results however are only as accurate as the self-reported experiences of the interview subjects.

Finally, given the insights gained through this study's qualitative methodology, future tax research utilizing interview research might well expand our understanding – and therefore our ability to reduce – other types of tax evasion. Tax evasion being both dishonest and illegal, interview subjects are rightly concerned with the ramifications of participating in such a study. Future researchers would be wise to emphasize the promise of confidentiality, the building of rapport, and the intimacy of the in-depth interview (in contrast to a focus-group methodology) when undertaking qualitative tax compliance research.

8.7 Conclusion

There may be an apparent disjuncture between Chapter 7's behavioral economics concerns with psychological motivation, personal tax ethics, or peer influences on noncompliance and Chapter 8's concerns with the uniquely American social welfare programming context in which individual employers make their decisions as well as with the interview material in Chapter 6 touching on the issue of the household's relation to the government insofar as that household may have Social Security payroll tax obligations to employees. However, as we saw in both Chapters 4 and 5, the overall institutional context of these household employment payroll tax decisions includes an Internal Revenue Service which managed to catch only 0.2% of evaders during a recent audit research study while refunding 87% as much paid in error on its overly complex Form 1040 Schedule H form as it collected after audits. This institutional context also shapes the operations of a Census Bureau and Bureau of Labor which do not appear to have reliable and consistent counts of private household workers. The tax system is complex. Domestic work and the people who do paid domestic work do not show up well on our regulatory or census-taking radar. These government agencies in turn are a reflection of a larger social context of racism and sexism in which domestic work – poorly paid and ineffectively-regulated – will logically be over-represented among those urban workers who are typically undercounted. In other words, the low-status and low-pay of domestic work overall are partly to blame for the difficulty of both obtaining proper data to study the problem as well as the difficulty of ensuring the taxes are properly paid.

T. H. Marshall (1950) argued that societies should progress to a stage of providing minimal economic support in old age or poverty as one's right as a citizen, a citizenship-based entitlement in the manner of libraries or other public goods as opposed to a more contingent form of entitlement, such as means-testing. Gordon and Fraser's (1992) development of his ideas and their application to the development of the U. S. welfare state make clear that our system of social provision has historically rejected citizenship-based entitlements – e.g., universal free daycare and early childhood education – opting instead to means-test most social support programs ("welfare", housing, medical care for those under 65). Social Security (with its companion program Medicare) is unique in its universality, however, it is not an entitlement, but rather tied to years of documented payment of payroll taxes by both employer and employee.

I have concluded that these unique features of our social welfare system are part of the larger institutional or social influences on these sometimes unwitting household employers studied in this dissertation. These employers do not (a) see themselves as employers because they are still in their own houses (b) see the individual whom they are paying as a worker whose presence in their home is governed by a great deal of labor regulation not to mention tax regulation (c) perceive – whether they approve of it or not – their financial obligation, their financial role (however minute) in providing for the future retirement security of retiring workers who have labored for them. These three individual failures are at the heart of nanny tax nonpayment. I believe that these individual failures arise from the institutional characteristics of our overall system of social provision.

Notes

[1] This suggestion came from an anonymous participant in the household employer interviews. In and of itself, this idea demonstrates the value of fieldwork with those directly concerned with and affected by a tax policy issue.

[2] Of course, if the domestic worker is married, their spouse's income might push them beyond the income eligibility limit, eliminating the usefulness of the EITC as an incentive to participate appropriately in the payroll tax contribution system.

APPENDIX A

INFORMED CONSENT LETTERS

Information for Household Employer Interviews

Thank you for considering being part of my study!

I am a graduate student writing my thesis on nanny taxes. I am doing interviews with people who hire nannies and housekeepers about the payroll taxes their employers are supposed to be paying for them.

The purpose of my research is to gather opinions and experiences about these household employment payroll taxes. I am talking to people who hire household help about how they feel and think about these taxes.

Because the interview involves talking about paying and not paying taxes, it is important to understand that there is some small risk of sharing that information with me. It is my firm intention to safeguard this information very carefully. I will not use your, or anyone else's, real name in writing up my research. I will not use any details that could be used to identify you. No one besides me will ever have access to the data.

Many household employers (as well as their employees) are frustrated with the nanny tax situation. By helping me research the topic, you will be contributing towards improvements in the employment tax system that could result from this research.

If you have questions or concerns, even well after the interview is complete, please feel free to contact me anytime. My phone number is (202) XXX-XXXX.

Information for Household Employee Interviews

Thank you for considering being part of my study!

I am a graduate student writing my thesis on nanny taxes. I am doing interviews with people who work as nannies and housekeepers about the payroll taxes their employers are supposed to be paying for them.

The purpose of my research is to gather opinions and experiences about these household payroll taxes. I am talking to people who work in households about how they feel and think about these taxes. I am also asking about how they think their employers see these taxes.

Because the interview involves talking about paying and not paying taxes, it is important to understand that there is some small risk of sharing that information with me. It is my firm intention to safeguard this information very carefully. I will not use your, or anyone else's, real name in writing up my research. I will not use any details that could be used to identify you. No one besides me will ever have access to the data.

Many household employees (as well as their employers) are frustrated with the nanny tax situation. By helping me research the topic, you might well be contributing towards improvements in the employment tax system that could result from this research.

If you have questions or concerns, even well after the interview is complete, please feel free to contact me anytime. My phone number is (202) XXX-XXXX.

APPENDIX B

INTERVIEW QUESTIONS

The interviews unfolded in various ways. Like many other ethnographic researchers, I attempted to allow the interview subject to govern the direction of the conversation. There was almost always a balance in the long run – over several hours or even several days – between free-ranging discussion and structured collection of demographic and payroll tax detail.

EMPLOYEE QUESTIONS

1. Where are you from?
2. What kind of education or training do you have?
3. What did you do before coming here?
4. How many years have you been in the U.S.?
5. Would you be willing to tell me how old you are?
6. Do you have any children?
7. Where do they live?
8. What kinds of work have you done here in the U.S?
9. How long have you worked for your current employer?
10. Have any of your employers paid your payroll taxes?
11. Does your current employer pay these employment taxes?
12. Why do you think they do (or don't) pay them?
13. Think of some of your previous employers. Can you tell me why you think they did or didn't pay?

14. Do YOU want them to be collecting the tax money from you and adding their share in order to pay your employment taxes?
15. Why or why not?
16. Has this changed over the years?
17. Do you know how long does an employee have to work (overall, counting all jobs held) in order to qualify for Social Security and Medicare benefits?
18. Do you know how many years of Social Security credit you have? Or, how close you are to having enough Social Security credit to qualify for benefits when you retire?
19. Do you know anyone who is still working in the U.S. just in order to finish qualifying for Social Security? That is, some older people would like to stop working, but they continue just in order to finish getting their ten years of Social Security credits. Do you know anyone like that?
20. In addition to Social Security benefits, these tax payments made now will also qualify you for Medicare insurance coverage as well. Are you familiar with what Medicare does?
21. Unemployment benefits are the third thing you qualify for after paying employment taxes for a certain period of time. Do you know what these do? Do you have any friends who've ever collected unemployment benefits?
22. Does thinking about Medicare and unemployment insurance change the way you feel about paying employment taxes?
23. How do you think employers in general see those taxes?

24. Can you tell me what you know about what kinds of taxes the employer is supposed to pay, and how the employee benefits from that?
25. Can you remember them ever saying anything about them?
26. How did you learn about payroll taxes and the choice that employers make?
27. Does it ever come up in conversation with your friends? What do people say?
28. Some people like to have cash at the end of the week. On the other hand, some people would rather have their employers pay tax and withhold part of their wages so they can have benefits when they retire. Which do you prefer? Why?
29. Would you rather have all your pay in cash now, or would you rather have less money now and be able to look forward to getting a monthly Social Security check when you stop working? Why?
30. Do you think that most of your friends would answer the same way?
31. Did you know that, for people who don't make a lot of money, having taxes withheld and filing a tax return in April can actually give them extra money, that is, they can come out ahead?
32. Do you know how much money a person with no children living with them can make without having to pay income tax on it?
33. Do you know what the Earned Income Tax Credit is?
34. Some people file a tax return even if they make too little money to owe taxes. They do this partly to get their paycheck witholdings returned as a refund. But another reason is to take advantage of the Earned Income Credit, especially if a person has children living with them in the U.S. (If they don't file taxes: Would

you be interested in filing a tax return to receive this money?) (If they do file taxes: Do you remember if you've ever gotten this credit before as a refund?)

35. Have you ever asked an employer to pay your employment taxes, and they wouldn't?
36. What reason did they give?
37. Have you ever NOT wanted them paid, but an employer insisted?
38. What reason did they give?
39. If you were an employer would you pay taxes? Why or why not?
40. Can you tell me about some of the experiences friends of yours have had with nanny taxes?
41. Have you ever tried to get an employer to change their minds one way or another?
42. Have you learned anything over the years from other nannies and housekeepers about how to change an employer's mind about something?
43. What advice about how to deal with employers would you give a young woman coming here to work for the first time?

EMPLOYER QUESTIONS

1. Where are you from?
2. What kind of education or training do you have?
3. What do you do? What kinds of work have you done?
4. Would you be willing to tell me how old you are?
5. How many children do you have?
6. Do you have a household employee right now?

7. How long have you had them? What kind of work do they do for you?
8. Have you had any other household employees?
9. Were any of them full-time?
10. (if there is no current employee, ask the next six questions in the past tense, "Did you pay..." etc.)
11. Do you pay household employment taxes?
12. Has this changed over the years? Why do you pay, or not pay, them?
13. Does your employee want you to be paying household employment taxes?
14. Why or why not?
15. Has this changed over the years?
16. Can you tell me a little bit about what's involved in paying employment taxes? For example, how often they are due? Who exactly is collecting them?
17. Can you tell me what fraction, roughly, of an employee's gross pay the employer has to send in as actual household employment taxes (as opposed to the employee's own income tax withholdings)?
18. Are part-time employers supposed to pay also?
19. What if the person works only once a week?
20. How do you know if you have to pay or not?
21. Can your employee collect Social Security even if she is not a citizen?
22. How long does an employee have to work (overall, counting all jobs held) in order to qualify for Social Security and Medicare benefits?
23. What is your understanding of how your employee benefits (would benefit) from your paying these taxes?

24. Do you know how long a person has to have these taxes paid before that worker qualifies for Social Security taxes?
25. How long have you had a household employee?
26. How many employee have you had?
27. Did you pay nanny taxes for them?
28. Think of one of them and tell me why you think they did or didn't pay.
29. How do you think household employers in general see those taxes?
30. When the subject comes up among your friends who have household help, what kinds of things do people say?
31. Have you ever asked to pay taxes for someone and they resisted?
32. What happened?
33. If you were an employee would you want your employer to pay taxes? Why or why not?
34. Can you tell me about some of the experiences friends of yours have had with nanny taxes?
35. Has a nanny ever tried to get you to change your mind about something?
36. In your experience, how do household employees try to get you to decide something in their favor, regarding work circumstances?

40. What advice would you give someone hiring a household employee for the first time? Would you advise them to pay employment taxes? Why or why not?

41. I am going to ask you to consider your household's overall income from last year. Without telling me the amount, please tell me which of the following ranges it fell into: less than $100,000, between $100,000 and $150,000, or over $150,000.

42. Now I would like you to consider all of the different sources of income your household received last year. Think about how large a part of that income came from bank interest or stock dividends as opposed to other sources, such as wages, salaries, pensions, or a business you own. Would you estimate that your interest and dividend income made up less than a third, between a third and two thirds, or over two thirds of your total income for the year?

APPENDIX C

SCHEDULE H OF FORM 1040

SCHEDULE H
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Household Employment Taxes

(For Social Security, Medicare, Withheld Income, and Federal Unemployment (FUTA) Taxes)

▶ **Attach to Form 1040, 1040NR, 1040-SS, or 1041.**

▶ **See separate instructions.**

OMB No. 1545-1971

2008

Attachment Sequence No. **44**

Name of employer

Social security number

Employer identification number

A Did you pay **any one** household employee cash wages of $1,600 or more in 2008? (If any household employee was your spouse, your child under age 21, your parent, or anyone under age 18, see the line A instructions on page H-4 before you answer this question.)

☐ **Yes.** Skip lines B and C and go to line 1.
☐ **No.** Go to line B.

B Did you withhold federal income tax during 2008 for any household employee?

☐ **Yes.** Skip line C and go to line 5.
☐ **No.** Go to line C.

C Did you pay **total** cash wages of $1,000 or more in **any** calendar **quarter** of 2007 or 2008 to **all** household employees? (**Do not** count cash wages paid in 2007 or 2008 to your spouse, your child under age 21, or your parent.)

☐ **No.** **Stop.** Do not file this schedule.
☐ **Yes.** Skip lines 1-9 and go to line 10 on the back. (Calendar year taxpayers having no household employees in 2008 **do not** have to complete this form for 2008.)

Part I **Social Security, Medicare, and Federal Income Taxes**

1	Total cash wages subject to social security taxes (see page H-4)	1		
2	Social security taxes. Multiply line 1 by 12.4% (.124)		2	
3	Total cash wages subject to Medicare taxes (see page H-4)	3		
4	Medicare taxes. Multiply line 3 by 2.9% (.029)		4	
5	Federal income tax withheld, if any		5	
6	**Total social security, Medicare, and federal income taxes.** Add lines 2, 4, and 5		6	
7	Advance earned income credit (EIC) payments, if any		7	
8	**Net taxes** (subtract line 7 from line 6)		8	

9 Did you pay **total** cash wages of $1,000 or more in **any** calendar **quarter** of 2007 or 2008 to **all** household employees? (**Do not** count cash wages paid in 2007 or 2008 to your spouse, your child under age 21, or your parent.)

☐ **No.** **Stop.** Include the amount from line 8 above on Form 1040, line 60, and check box **b** on that line. If you are not required to file Form 1040, see the line 9 instructions on page H-4.

☐ **Yes.** Go to line 10 on the back.

For Privacy Act and Paperwork Reduction Act Notice, see page H-7 of the instructions. Cat. No. 12187K **Schedule H (Form 1040) 2008**

Part II Federal Unemployment (FUTA) Tax

			Yes	No
10	Did you pay unemployment contributions to only one state?	10		
11	Did you pay all state unemployment contributions for 2008 by April 15, 2009? Fiscal year filers, see page H-4	11		
12	Were all wages that are taxable for FUTA tax also taxable for your state's unemployment tax?	12		

Next: If you checked the **"Yes"** box on **all** the lines above, complete Section A.
If you checked the **"No"** box on **any** of the lines above, skip Section A and complete Section B.

Section A

13 Name of the state where you paid unemployment contributions ▶

14 State reporting number as shown on state unemployment tax return ▶

15 Contributions paid to your state unemployment fund (see page H-5) 15

16 Total cash wages subject to FUTA tax (see page H-5) 16

17 **FUTA tax.** Multiply line 16 by .008. Enter the result here, skip Section B, and go to line 26 17

Section B

18 Complete all columns below that apply (if you need more space, see page H-5):

(a) Name of state	(b) State reporting number as shown on state unemployment tax return	(c) Taxable wages (as defined in state act)	(d) State experience rate period From	(d) To	(e) State experience rate	(f) Multiply col. (c) by .054	(g) Multiply col. (c) by col. (e)	(h) Subtract col. (g) from col. (f). If zero or less, enter -0-.	(i) Contributions paid to state unemployment fund

19 Totals 19

20 Add columns (h) and (i) of line 19 20

21 Total cash wages subject to FUTA tax (see the line 16 instructions on page H-5) 21

22 Multiply line 21 by 6.2% (.062) 22

23 Multiply line 21 by 5.4% (.054) 23

24 Enter the **smaller** of line 20 or line 23 24

25 **FUTA tax.** Subtract line 24 from line 22. Enter the result here and go to line 26 25

Part III Total Household Employment Taxes

26 Enter the amount from line 8. If you checked the "Yes" box on line C of page 1, enter -0- 26

27 Add line 17 (or line 25) and line 26 (see page H-5) 27

28 Are you required to file Form 1040?

☐ **Yes.** **Stop.** Include the amount from line 27 above on Form 1040, line 60, and check box **b** on that line. **Do not** complete Part IV below.

☐ **No.** You may have to complete Part IV. See page H-5 for details.

Part IV Address and Signature—Complete this part only if required. See the line 28 instructions on page H-5.

Address (number and street) or P.O. box if mail is not delivered to street address | Apt., room, or suite no.

City, town or post office, state, and ZIP code

Under penalties of perjury, I declare that I have examined this schedule, including accompanying statements, and to the best of my knowledge and belief, it is true, correct, and complete. No part of any payment made to a state unemployment fund claimed as a credit was, or is to be, deducted from the payments to employees. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Employer's signature ▶ Date

Paid Preparer's Use Only

Preparer's signature ▶ | Date | Check if self-employed ☐ | Preparer's SSN or PTIN

Firm's name (or yours if self-employed), address, and ZIP code ▶ | EIN | Phone no. ( )

Schedule H (Form 1040) 2008

BIBLIOGRAPHY

Abramowicz, K. F. (1991). *An empirical investigation of tax compliance related to scholarship income*. (Doctoral dissertation, University of Missouri, 1991).

Aggarwal, R. 2000. Traversing lines of control: Feminist anthropology today. *Annals of the American Academy of Political and Social Science, 571*, 14-29.

Allingham, M. G. & Sandmo, A. (1972). Income tax evasion: A theoretical analysis. *Journal of Public Economics, 1,* 323-38.

Anderson, B. (2000). *Doing the dirty work? The global politics of domestic labour.* London: Zed Books.

Andreoni, J., Erard, B. & Feinstein, J. (1998). Tax compliance. *Journal of Economic Literature, 36*(2), 818-60.

Axtell, R., Johnson, C., & Korobow, A. (2007). An agent-based model of tax compliance with social networks. *National Tax Journal, 60*(3), 589-610.

Bajtelsmit, V. L. & Jianakoplos, N. A. (2000). Women and pensions: A decade of progress? *EBRI Issue Brief, No. 227.* Retrieved from http://ssrn.com/abstract=257821.

Baldry, J. C. (1987). Income tax evasion and the tax schedule: Some experimental results. *Public Finance, 42*(3), 357-83.

Becker, G. (1968). Crime and punishment – an economic approach. *Journal of Political Economy, 76*(2), 169-217.

________. (1981). *A Treatise on the Family.* Cambridge, MA: Harvard University Press.

________. (1985). Human capital, effort, and the sexual division of labor. *Journal of Labor Economics, (3)*1, 33-58.

Bergman, B. (2002). *The economic emergence of women.* (2nd ed.). New York: Palgrave, St. Martin's Press.

Berik, G. (1996). Understanding the gender system in rural Turkey: Fieldwork dilemmas of conformity and intervention. In D. L. Wolf, (Ed.), *Feminist Dilemmas in Fieldwork.* Boulder, CO: Westview Press.

Bishaw, A. & Stern, S. (2006). Evaluation of poverty estimates: A comparison of the American Community Survey and the Current Population Survey. Washington, DC: Poverty and Health Statistics Branch, Housing and Household Economic Statistics Division, U. S. Census Bureau.

Blackwell, C. C. (2000). Issues in tax compliance. (Dissertation, University of New Mexico, 2000).

Bloch, F. & Rao, V. (2002). Terror as a bargaining instrument: A case study of dowry violence in rural India. *The American Economic Review, 192*(4), 1029-1043.

Bloomquist, K. M. (2004). Multi-agent simulation of the deterrent effects of taxpayer audits. *Proceedings of the 97th Annual Conference of the National Tax Association.* Minneapolis, MN, November 2004.

________, K. M., Plumley, A. H., & Toder, E. J. (2004). Tax noncompliance in the United States: Measurement and recent enforcement initiatives. In C. Bajada & F. Schneider (Eds.). *Size, causes and consequences of the underground economy: An international perspective.* Hants, England: Ashgate Publishing.

________. (2006). A comparison of agent-based models of income tax evasion. *Social Science Computer Review, 24*(4), 411-25.

________ & An, Z. (2006.) Geographic variation in Schedule H filing rates: Why should location influence the decision to report "nanny" taxes? *Proceedings of the National Tax Association 98th Annual Conference.* Washington, DC.

Bradley, C. F. (1994). An empirical investigation of factors affecting corporate tax compliance behavior. (Dissertation, University of Alabama, 1994).

Browne, I. & Misra, J. (2003). The intersection of gender and race in the labor market. *Annual Review of Sociology, 29,* 487-513.

Bugarin, A., DeBry, S., & Jones, M. (2005). Undocumented immigrants: An annotated bibliography. Sacramento, CA: California Research Bureau, California State Library.

Çağatay, N., Elson, D., & Grown, C. (1995). Gender, adjustment and macroeconomics: Introduction. *World Development, 23*(11), 1827-36.

Center for Budget and Policy Priorities. (2006). *Strategies for promoting tax credits for working families: How to help make tax time pay*. Washington, DC.

Chang, O. (1984). Tax avoidance behavior: A prospect theory perspective. (Dissertation, University of Illinois, 1984).

Clark, S. L., Iceland, J., Palumbo, T., Weismantle, M., & Posey, K. (2003). Comparing employment, income, and poverty: Census 2000 and Current Population Survey, U.S. Census Bureau. Census Bureau: Washington, DC. Retrieved from http://www.census.gov/hhes/poverty/census2000.html.

Clotfelter, C. T. (1983). Tax evasion and tax rates: An analysis of individual returns. *Review of Economic Statistics*, *65*(3), 363-73.

Constable, N. (1997). Sexuality and discipline among Filipina domestic workers in Hong Kong. *American Ethnologist, 24*(3), 539-58.

Conway, D. & Cohen, J. H. (1998). Consequences of migration and remittances for Mexican transnational communities. *Economic Geography*, *74*(1), 26-44.

Copeland, P. V. (1995). The effects of departures from prior return measures on individual taxpayer frame and tax reporting decisions. (Dissertation, Louisiana State University and Agricultural and Mechanical College, 1995).

Cowell, F. A. (1981). Taxation and labour supply with risky activities. *Economica, 48*(192), 365-79.

Crary, D. (2007, November 4). Domestic workers labor in the shadows. *Los Angeles Times.* Retrieved from http://www.articles.latimes.com/2007/nov/04/news/adna-maidshadows4.html.

Current Population Survey's Annual Social and Economic Supplement. (2007). Washington, DC: U. S. Census Bureau.

Dusenbury, R. B. (1989). Tax compliance: The effect of the timing of payments. (Dissertation, University of Florida, 1989).

Edin, K. & Kefalas, M. (2005). *Promises I Can Keep: Why Poor Women Put Motherhood Before Marriage.* Berkeley: University of California Press.

________. & Lein, L. (1997). *Making Ends Meet: How Single Mothers Survive Welfare and Low-Wage Work*. New York: Russell Sage Foundation.

Ehrenreich, B. & Hochschild, A. R. (2002). *Global Woman: Nannies, Maids, and Sex Workers in the New Economy.* New York: Henry Holt.

Engel, E. M. R. A. & Hines, J. R., Jr. (1999). Retrospective audits and tax evasion dynamics in the United States. (Working paper No. 6903, NBER, 1999).

England, P. & Folbe, N. (1999). Who should pay for the kids? *Annals of the American Academy of Political and Social Science, 563*(1), 194-207.

Erard, B. & Feinstein, J. S. (1994). Honesty and evasion in the tax compliance game. *Rand Journal of Economics, 25*(1), 1-19.

Feinstein, J. S. (1991). An econometric analysis of income tax evasion and its detection. *Rand Journal of Economics*, *22*(1), 233-76.

Ferber, M. A. & Nelson, J. A. (Eds.). (1993). *Beyond economic man: Feminist theory and economics.* Chicago and London: University of Chicago Press.

Folbre, N. (1991). The unproductive housewife: Her evolution in nineteenth-century economic thought. *Signs 16*(3), 463-484.

________. (1994). *Who pays for the kids? Gender and the structures of constraint.* New York: Routledge.

________. (1995). Holding hands at midnight: The paradox of caring labor. *Feminist Economics, 1*(1), 73-92.

________. (2001). *The invisible heart: Economics and family values.* New York: The New Press.

________. (2005). Demand quality: Worker/Consumer coalitions and 'high road' strategies in the care sector. Paper presented at 2005 Conference on Caring Labor, Seattle, WA.

Forest, A. (2000). Active and passive deterrence of income tax evasion. (Dissertation, University of California-Davis, 2000).

Fraser, N. & Gordon, L. (1992). Contract vs. charity: Why is there no social citizenship in the United States? *Socialist Review*, *22,* 45-67.

Friedland, N., Maital, S., & Rutenberg, A. (1978). A simulation study of income tax evasion. *Journal of Public Economics, 10*(1), 107-16.

Gibson, K., Law, L. & McKay, D. (2001). Beyond heroes and victims: Filipina contract migrants, economic activism and class transformations. *International Feminist Journal of Politics, 3,* 365-87.

Gidwani, V. (2000). The quest for distinction: A reappraisal of the rural labor process in Kheda District (Gujarat), India. *Economic Geography, 76*(2), 145-168.

Gilligan, C. (1982). *In a different voice: Psychological theory and women's development*. Cambridge, MA: Harvard University Press.

Gordon, L. & Fraser, N. (1992). Contract versus charity: Why is there no social citizenship in the United States? *Socialist Review, 22,* 45-68.

Graetz, M. J., Reinganum, J. F., & Wilde, L. L. (1986). The tax compliance game: Toward an interactive theory of tax enforcement. *Journal of Law and Economic Organization 2*(1), 1-32.

Hagan, J. M. (1998). Social networks, gender, and immigrant incorporation: Resources and constraints. *American Sociological Review, 63*(1), 55-57.

Hamm, J. L. (1995). Income level and tax rate as determinants of taxpayer compliance: An experimental examination. (Dissertation, Texas Technical University, 1995).

Hardin, R. (2000). Symposium: The legal construction of norms: Law and social norms in the large. *Virginia Law Review, 86,* 1821-38.

Hartell, E. (2007). Are women more risk averse than men? An analysis of the Swedish Premium pension choices. Student thesis. Jönköping University. Retrieved from http://urn.kb.se/resolve?urn=urn:nbn:se:hj:diva-812.

Hasseldine, D. J. (1997). The effect of framing persuasive communications on taxpayer compliance. (Dissertation, Indiana University, 1997).

Hibbert, A. M. (2008) Essays on risk aversion, diversification and non-participation. *FIU Electronic Theses and Dissertations.* Paper 67. Retrieved from http://digitalcommons.fiu.edu/etd/67.

Holland, D. S. & Sutinen, J. G. (2000). Location choice in New England trawl fisheries: Old habits die hard. *Land Economics, 76*(1), 133-149.

Hondagneu-Sotelo, P. (2001). *Domèstica*. Berkeley, CA: University of California Press.

________. (1994). Regulating the unregulated? Domestic workers' social networks. *Social Problems, 41*(1), 50-64.

Hudson, R. B. (1997). *The future of age-based public policy*. Baltimore: Johns Hopkins University Press.

Internal Revenue Service. (2005). Understanding the tax gap, FS-2005-14. Retrieved from http://www.irs.gov/pub/irs-utl/tax_gap_facts-figures.pdf.

Internal Revenue Service. (2008). Publication 503, Child and Dependent Care Expenses. Retrieved from www.irs.gov/pub/irs-pdf/p503.pdf.

Jansson, B. (2005). *The reluctant welfare state: American social welfare policies, past, present and future.* (5th ed.) Pacific Grove: Brooks/Cole.

Jaynes, G. D. (1998). Race and class in postindustrial employment. *American Economic Review, 88*(2), 357-362.

Jianakoplos, N. A. & Bernasek, A. (1998). Are women more risk averse? *Economic Inquiry*, *36*, 620-630.

Kahneman, D. & Tversky, A. (1997). Prospect theory: An analysis of decision under risk. *Econometrica*, *47*, 263-291.

Kamas, L., Preston, A., & Baum, S. (2008). Altruism in individual and joint-giving decisions: What's gender got to do with it? *Feminist Economics*, *14*(3), 23-50.

Keller, C. E., Jr. (1997). An experimental investigation of how ethical orientations, tax rates, penalty rates, and audit rates affect tax compliance decisions. (Dissertation, University of Tennessee, 1997).

Kohlberg, L. (1981). *Essays on Moral Development, Vol. I: The Philosophy of Moral Development*. New York: Harper & Row.

Lapidus, J., & Figart, D. M. (1998). Remedying 'unfair acts': U.S. pay equity by race and gender. *Feminist Economics,4*(3), 7-28.

Levitt, S. D. & Venkatesh, S. A. (2001). Growing up in the projects: The economic lives of a cohort of men who came of age in Chicago public housing. *American Economic Review, 91*(2), 79-84.

Levmore, S. (2000). Symposium: The legal construction of norms: Norms as supplements. *Virginia Law Review, 86*, 1989-2021.

Lofland, J. & Lofland, L. H. (1994). *Analyzing social settings: A guide to qualitative observation and analysis.* (3rd ed.) Thousand Oaks, CA: Sage.

Long, S. B. & Schwartz, R. D. (1987). The impact of IRS audits on taxpayer compliance: A field experiment in specific deterrence. Paper presented at the annual meeting of the Law and Society Association, Washington, DC, 1987.

Lundberg, S. & Pollak, R. A. (1993). Separate spheres bargaining and the marriage market. *Journal of Political Economy, 101*(6), 988-1010.

Mahfar, M. S. (1994). An investigation of a taxpayer education program for developing countries: A Malaysian example. (Dissertation, Golden Gate University, 1994).

Manser, M. & Brown, M. (1990). Marriage and household decision making: A bargaining analysis. *International Economic Review, 21*, 31-40.

Marmor, T., Mashaw, J., & Harvey, P. (1990.) *America's misunderstood welfare state.* New York: Basic Books.

Marshall, T. H. (1950). *Citizenship and social class and other essays.* Cambridge: Cambridge University Press.

McElory, M. & Horney, M. J. (1981). Nash-bargained household decisions, *International Economic Review*, *22*, 333-350.

Meagher, G. (1997). Recreating 'domestic service': Institutional cultures and the evolution of paid household work. *Feminist Economics, 3*(2), 1-27.

Mendez, J. B. (1998). Of mops and maids: Contradictions and continuities in bureaucratized domestic work. *Social Problems, 45*(1), 114-135.

Menjivar, C. (1997). Immigrant kinship networks and the impact of receiving context: Salvadorans in San Francisco in the early 1990s. *Social Problems*, *44*(1), 104-123.

Middlekauf, T. (2003, October 27). Nannies. *Gotham Gazette*. Retrieved from http://www.gothamgazette.com/article//20031027/200/582.

Mills, L. F. (1996). Essays in corporate tax compliance and financial reporting. (Dissertation, University of Michigan, 1996).

Nardone, T., Bowler, M., Kirkland, K., Kropf, J., & Wetrogan, S. (2003). Examining the discrepancy in employment growth between the CPS and the CES. Paper presented to the Federal Economic Statistics Advisory Committee (FESAC), October 17, 2003, Washington, DC.

Nelson, C., Welniak, E., & Posey, K. (2003). Income in the American Community Survey: Comparisons to Census 2000. US Census Bureau working paper. Retrieved from http://www.census.gov/acs/www/Downloads/ACS/ASA_nelson.pdf.

Newell, R. B. (1995). An experimental study of tax law complexity as it affects taxpayers' ability to comply. (Dissertation, Nova Southeastern University, 1995).

Nguyen, P. (2004). Some notes on biased statistics and African Americans. *Journal of Black Studies, 34*(4), 514-531.

________. (2007). The Census Bureau and its accountability. *American Review of Public Administration, 37*(2), 226-243.

Palsson A. M. (1996). Does the degree of relative risk aversion vary with household characteristics? *Journal of Economic Psychology*, *17*(6), 771-787.

Parreñas, R. S. (2005). *Children of Global Migration*: *Transnational Families and Gendered Woes.* Palo Alto, CA: Stanford University Press.

________. (2000). Migrant Filipina domestic workers and the international division of reproductive labor. *Gender and Society, 14*(4), 560-580.

________. (2001). *Servants of globalization: Women, migration, and domestic work.* Palo Alto, CA: Stanford University Press.

________. (2001). "Transgressing the nation-state: The partial citizenship and 'imagined (global) community' of migrant Filipina domestic workers. *Signs, 26*(4), 1129-1154.

Pencavel, J. H. (1979). A note on income tax evasion, labor supply, and nonlinear tax schedules. *Journal of Public Economics*, *12*(1), 115-24.

Petska, T. & Strudler, M. (2000). Income, taxes, and tax progressivity: An examination of recent trends in the distribution of income and taxes. Washington, DC: Statistics of Income Division, Internal Revenue Service.

Phillips, J. D., Jr. (1999). Corporate tax planning effectiveness: The role of incentives. (Dissertation, University of Iowa,1999).

Plumley, A. H. (2005). *The determinants of individual income tax compliance: Estimating the impacts of tax policy, enforcement, and IRS responsiveness.* Internal Revenue Service, Washington, DC.

Pollak, R. A. (2007). Family bargaining and taxes: A prolegomenon to the analysis of joint taxation," *Taxation and the Family,* CESifo Economic Studies, MIT Press.

Posner, E. A. (2000). Symposium: The legal construction of norms: Law and social norms: The case of tax compliance. *Virginia Law Review, 86,* 1781-1820.

Pratt, G. (2004). *Working Feminism.* Philadelphia: Temple University Press.

________. 1997a. From registered nurse to registered nanny: Discursive geographies of Filipina domestic workers in Vancouver, B.C. *Economic Geography, 75,* 215-36.

________. 1997b. Stereotypes and ambivalence: The construction of domestic workers in Vancouver, B.C. *Gender, Place and Culture, 4,* 159-177.

Quadagno, J. (1994). *The color of welfare: How racism undermined the War on Poverty*. Oxford: Oxford University Press.

Rao, V. (2002). Experiments in participatory econometrics: Improving the connection between economic analysis and the real world. *Economic and Political Weekly, 33*, 1887-91.

Reinganum, J. F. & Wilde, L. L. (1985). Income tax compliance in a principal-agent framework. *Journal of Public Economics, 26*(1), 1-18.

________. (1986). Equilibrium verification and reporting policies in a model of tax compliance. *International Economic Review, 27*(3), 739-60.

Rice, E. M. (1990). Skirting the law: Essays on corporate tax evasion and avoidance. (Dissertation, Harvard University, 1990).

Schmitt, J., & Baker, D. (2006). The impact of undercounting in the Current Population Survey. Washington, DC: Center for Economic and Policy Research.

Small, M. L. (2005). How not to make qualitative research more scientific. Paper presented at National Science Foundation Workshop on Qualitative Methods, Princeton University, 2005.

Spicer, M. W. & Hero, R. E. (1985). Tax evasion and heuristics: A research note. *Journal of Public Economics*, *26*(2), 263-67.

Spradley, J. P. (1979). *The Ethnographic Interview*. New York: Holt, Rhineholt and Winston.

Srinivasan, T.N. (1973). Tax evasion: A model. *Journal of Public Economics, 2*(4), 339- 346.

Stasiulis, D. & Bakan, A. B. (1997). Negotiating citizenship: The case of foreign domestic workers in Canada. *Feminist Review, 57*(1), 112-139.

Strauss, A. C. & Corbin, J. M. (1998). *Basics of qualitative research: Techniques and procedures for developing grounded theory. (2nd ed.).* Thousand Oaks, CA: SAGE Publications.

Sundén, A. E. & Surette, B. J. (1988). Gender differences in the allocation of assets in retirement savings plans. *American Economic Review*, *88*(2), 207-211.

Warren, C. (1988). *Gender issues in field research.* Thousand Oaks, CA: SAGE Publications.

Webley, P. (1991). Audit probabilities and tax evasion in a business simulation. *Economic Letters*, *25*(3), 267-70.

Weiss, R. (1995). *Learning from strangers: The art & method of qualitative interview studies.* New York: Simon and Schuster.

Ventry, D. J., Jr. (2000). The collision of tax and welfare politics: The political history of the earned income tax credit, 1969-1999. *National Tax Journal*, *53*(2), 983-1026.

Wolf, D. L. (Ed.) (1996). *Feminist Dilemmas in Fieldwork.* Boulder, CO: Westview Press.

Wrigley, J. (1999). Hiring a nanny: The limits of private solutions to public problems. *Annals of the American Academy of Political and Social Science, 563*, 162-174.