

# **Veteran Directed Care (VDC) Program**

## **Case Manager Reference Guide: Family Employee Tax Exemptions**

### **Who Determines Tax Exemption**

Tax exemption is based on the employee's relationship to the Employer of Record (EOR), which may be the participant or their designated representative. This is not always based on the employee's relationship to the participant.

### **Who May Qualify for Exemption**

- Spouse of the Employer of Record
- Parent of the Employer of Record
- Child under age 21 of the Employer of Record

Always confirm exemption status with the FMS/payroll provider before communicating final determination.

### **Social Security & Medicare (FICA)**

- No Social Security tax withheld
- No Medicare tax withheld

Key Impact: Employee will not earn Social Security credits. This work will not count toward retirement, disability, or survivor benefits.

### **No Opt-In Option**

Federal law does not allow employees to opt into FICA taxes if exempt. There are no workarounds.

### **Unemployment Taxes (FUTA & SUTA)**

Employer does not pay unemployment taxes for exempt employees.

Impact: No change to paycheck, but employee may not qualify for unemployment benefits.

### **Why This Matters**

- Higher take-home pay
- No Social Security credits earned
- Possible ineligibility for unemployment benefits

### **How to Explain It (Simple Language)**

- These rules are based on your relationship to the Employer of Record.
- Some taxes may not be taken out of your paycheck.
- You will not earn Social Security credits from this job.
- You may not qualify for unemployment benefits if the job ends.

### **Important Reminders for Case Managers**

- Do not provide tax advice
- Use 'may' and 'typically' unless confirmed
- Always identify the Employer of Record
- Document that explanation was provided

### **Bottom Line**

Tax exemption depends on the relationship to the Employer of Record. It may increase take-home pay but can reduce future Social Security benefits and unemployment eligibility.