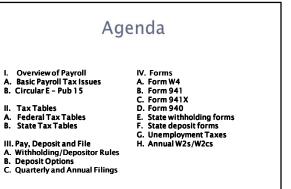
NUTS AND BOLTS OF PAYROLL TAXES

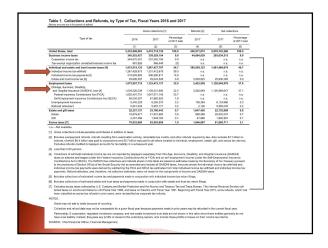


NUTS AND BOLTS OF PAYROLL TAXES

- ▶ I. Overview of Payroll
- II. Basic Payroll Tax Issues

NUTS AND BOLTS OF PAYROLL TAXES TAXES

- Did you know that payroll professionals are responsible for collecting and paying over to the U.S. Treasury more than two-thirds of the operating budget of our nation?
- In the U.S. government's fiscal year 2017, payroll departments deposited 71.9% of the total IRS collections of nearly \$3.5 trillion. That's almost \$2.4 trillion collected by payroll!



II. Tax Tables

Publication 15

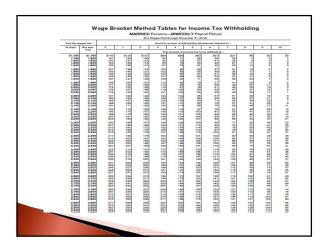
Publication 15-A

Publication 15-B

Circular E – Pub 15, 15-A, and 15-B www.irs.gov Download publications from this website.

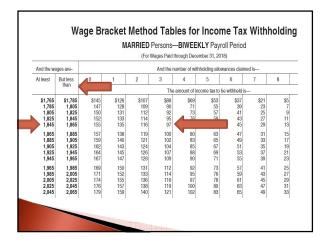
Federal Tax Tables

- There are two main methods for deducting federal taxes from employees.
- First is the Wage bracket method
- Go to the appropriate table, find the wage, and then move across the columns until you are under the number of allowances.



Federal Tax Tables

- Since I know you can't read that chart, I have enlarged it on the next slide.
- This chart is the Married Biweekly chart.
- I have selected \$1845.00 with 3 allowances
- Be sure to watch the top column headings
- "At least" "but less than"

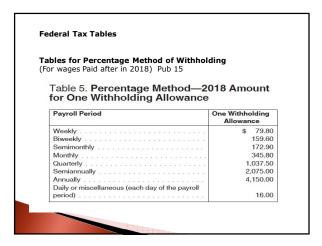


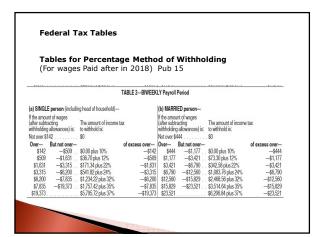
Federal Tax Tables

- For \$1840.00 the tax is \$97.00
- Staying on the correct line is essential.

Percentage Federal Withholding

- All payroll systems use the percentage withholding table.
- Actually they only load 2 tables into your system. The annual tables for single and one for married.
- The system then annualizes the amount of the gross check, taxes it and divides it back down to fit your cycle.
- That is the reason folks scream when they get extra overtime pay and the taxes are so high. The system thinks they get that amount every check.



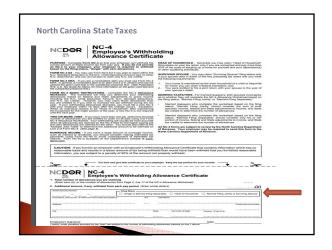


Percentage Federal Withholding

- Let's take the same \$1840.00, biweekly, married with 3 allowances.
- First get the allowances
- 3 x \$159.60 = \$478.80
- Subtract allowances from wages:
- · \$1,845.00 \$478.80 = \$1,366.20
- Less the excess from the chart
- · \$1,366.20 \$1,177.00 = \$189.20
- \$189.20 x 12% = \$22.70
- \$22.71 + \$73.30 (amount from chart) = \$96.01
- Wage Bracket was \$97.00

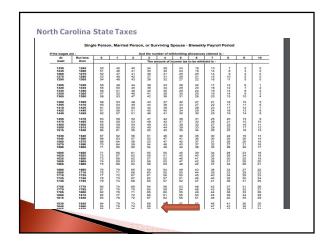
State Withholding Taxes

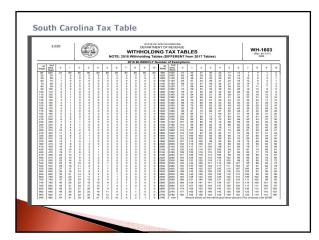
- State taxes are basically handled just like Federal with different charts for different pay cycles.
- Let's Start with North Carolina
- One of the first differences I notice about a NC−4 is the categories.
- Single or Married filing separately
- ▶ Head of Household
- Married filing Jointly or Surviving Spouse

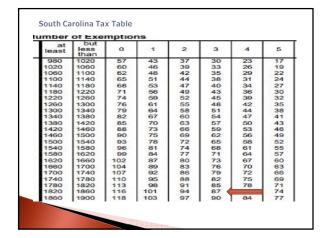


South Carolina Tax Tables

- ➤ South Carolina does not use its own W-4. They accept the federal W-4. If the employee wants a different allowance used for state, they need to complete a separate W-4 and write "For Use for South Carolina Withholding" across the top of the form.
- We're going to keep working with the \$1845.00 biweekly check.

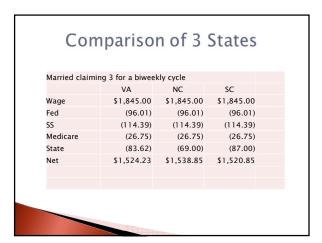






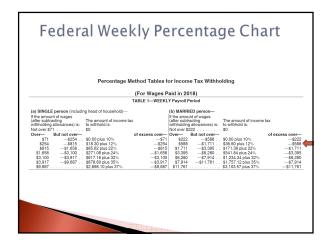
Federal Insurance Contributions Act

- For FICA, there is a split for the wage base on which to compute the tax. The social security portion (6.2%) is applicable to the first \$128,400 in wages.
- The Medicare portion (1.45%) is for **all** taxable wages paid in the calendar year.
- Now there is an employee additional tax of 0.9% on all wages greater than \$200,000. This is an **EMPLOYEE** tax only.



▶ Computing Gross to Net with Pre-tax Contributions

- An employee is due a regular weekly wage payment of \$850. He is Married with 2 allowances
- The employee contributes 4% in pretax contributions to a 401(k) plan and \$25 to a Section 125 health insurance plan.
- We are going to use the percentage method for FIT, no state tax and that the employee has no year-to-date wages at the time of the payment, what would the net pay be?





How to Gross up and Why

D. How to Gross-up and why

- Does anyone in your company drive a company car?
- Fly on a company aircraft?
- Have taxes prepared as part of executive perks?
- Receive life insurance in excess of \$50,000 and leave the company before it is added to income?
- Receive a gift certificate or win a trip?
- Does a supervisor want to give an employee a \$500 award and the employee actually receive \$500?

- All of these examples can create a reason to gross up a paycheck. When you gross up a check, what you are actually doing is adding the taxes onto the amount of money desired to force the net results.
- So, sometimes an employer will PAY the taxes rather than deduct the taxes.
- There is a simple formula for this process. Add all the taxes together then subtract the total taxes from 100%. Take the results of that equation and divide it into the desired net and that is the gross amount of the payment.

Example: Ted wants to give Sally a \$500 award for a special project she finished ahead of schedule. Using supplementary taxes we would gross up as follows:

▶ Federal withholding	22.00%
Social Security Tax	6.20%
Medicare Tax	1.45%
▶ State Tax	7.00%
▶ Total of taxes	36.65%

What is her gross check?

Less	100.00% 36.65% 63.35%		
\$500 desired net ÷ Proof:	.6335 =	\$789.27	
Federal Tax	22%	\$173.64	
Social Security Tax	6.2%	48.93	
Medicare Tax	1.45%	11.45	
▶ State Tax	7.00%	55.25	
Net Check		\$500.00	

- The tricky part of grossing up a payment is when the employee's check is close to the maximum Social Security wage base.
- If they have already reached the maximum, you would just leave out the 6.2% when adding the taxes together.
- but what if they were <u>within \$300 of the maximum</u> when you wanted to do the above calculation. What would you do?

Take 6.2% of what is left to max out the wage base (6.2% x \$300 = \$18.60) and add that amount to the desired net and then continue with the formula as before but without the 6.2% for SS.

69.55%

Federal withholding	na	22.00%
Medicare Tax	3	1.45%
▶ VA State Tax		7.00%
Total of taxes		30.45%
•	100.00%	
Less	30.45%	

Desired net \$500 plus Social Security tax of \$18.50 = \$518.60 "new" net

▶ \$518.60 ÷ .6955 = gross \$745.65

▶ Proof:

▶ Federal Tax
 ▶ Social Security Tax
 ▶ Medicare Tax
 ▶ State Tax
 ▶ Net Check
 \$500.00

III. Pay, Deposit, File

Withholding/Depositor Rules

- Federal income tax (FIT) and Federal Insurance Contributions Act (FICA) taxes are called Trust Funds.
- These funds are being held for the benefit of the employee and are to be paid over to the IRS.

As discussed earlier, federal income tax is based on income, marital status and personal allowances. The process of withholding taxes from the employees' pay and depositing those taxes with the IRS is the same as making estimated payments on behalf of the employee.

Also discussed earlier, FICA tax is based on two separate taxes. Social security and Medicare are the two pieces of the FICA tax. The employer must **match** the amount withheld from the employee (except for additional Medical tax).

- Now we will go into how the employer reports those taxes to the IRS.
- Each pay period a tax liability is incurred.
- The amount of that liability determines how frequently the employer must deposit those taxes with the government.
- There is a lookback period that the IRS uses to determine this frequency of each employer.
- July 1 of the 2nd preceding year to June 30 of the preceding tax year. Lookback for 2018 would be July 1, 2016 to June 30, 2017.

- IRS looks at the total amount of tax liability over the lookback period and uses the following formula;
- ▶ \$50,000 or less Monthly depositor
- ▶ \$50,000 or more Semiweekly depositor
- Really small employers could fall into the quarterly depositor rule, which is less than \$2500 in a quarter.

- Monthly depositor liabilities accumulated during the month are deposited no later than the 15th of the following month. Example – October payroll tax liability is to be deposited by November 15th.
- All new businesses are monthly depositors in the beginning while they establish a lookback record.
- Once a new business accumulates \$100,000 in liability and triggers the accelerated rule, they automatically switch to a semi-weekly depositor for the remainder of that year and the following calendar year.

- Semiweekly depositor tax liabilities that relate to wages paid on Wednesday, Thursday or Friday must be deposited on or before the following Wednesday.
- Liabilities that relate to wages paid Saturday, Sunday, Monday or Tuesday must be deposited by the **Friday** of that week.

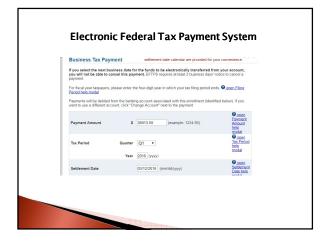
- If there is a holiday within this period, you are allowed to deposit the following day.
- Example: for a Friday payday, the following Monday is Memorial Day, that means your Wednesday deposit would be due Thursday.
- You are always allowed at least three (3) banking days between pay day and deposit day (except for the accelerated rule).
- Quarterly depositor. If an employer has a tax liability of less than \$2,500, it does not have to make deposits during the quarter.
- It just remits the money quarterly with Form 941 using a 941V.
- This is about the only time you can use a check.

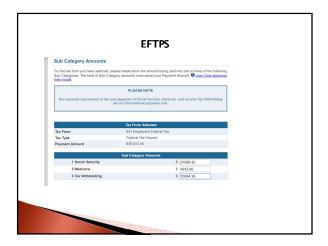
- If an employer has a tax liability of \$100,000 or greater, it falls under the **Accelerated Rule** and must deposit those taxes on the next banking day.
- Any depositor (monthly, semi-weekly, quarterly) who accumulates a liability of \$100,000 must deposit those taxes by the next banking day.
- You accumulate liability during the same
 cycle.....Wednesday, Thursday, Friday
- Or Saturday, Sunday, Monday, Tuesday
- You would **NOT** accumulate liability from a Friday and Monday pay day because they are in separate cycles.

- Also you never accumulate liabilities that cross a quarter.
- Example: Wednesday, March 31st pay day \$65,000 liability. Thursday, April 1st commission pay day \$50,000 liability
- Even though they are in the Wed, Thur, Fri cycle, they have crossed a quarter and require two separate deposits the following Wednesday.
- One for 1st quarter and one for 2nd quarter.

Deposit Method:

- The only option is by using EFT, which is electronic funds transfer.
- The IRS has made the EFTPS (Electronic Federal Tax Payment System) a mandatory method for all employers.
- There is no longer a liability threshold for electronic transfer. After January 1, 2011 <u>ALL</u> federal taxes must be deposited using EFT (corporate as well as payroll).





Quarterly and Annual Filings

- The big difference between the Form 941 and Form 940 is that both taxes must be deposited on a schedule during the year.
- However the Form 941 must be filed no less than quarterly and the Form 940 only has to be filed annually.

Withholding Instructions for State Income Tax Withholding

If federal law requires an employer to withhold tax from any payment, those states with withholding rules also require tax calculations. As an employer you are required to register for withholding tax, file income tax withholding returns, and pay the income tax to the Department of Taxation for every state in which you have employees.

Withholding Instructions for State Income Tax Withholding

• Employers are responsible for timely payment and filing of their incurred withholding liability. Employers must also file the withholding forms whether or not there is withholding tax owed.

North Carolina

- If your withholding liability for the month is less than \$250.00, your withholding tax payments are due quarterly.
- If your withholding liability for the month is \$250.00 but less than \$2,000.00, your withholding tax payments are due the 15th of the month following liability.
- If your withholding liability for the month is \$2,000.00 or more, your withholding tax payments are due on the same schedule as your federal tax payments.

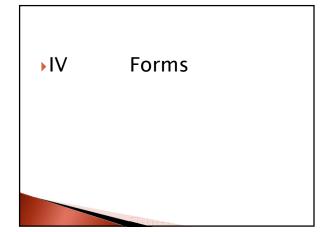
North Carolina

- Tax returns for withholding are due quarterly.
- NC-5Q can be filed on paper or online using the same quarterly schedule as federal 941 returns.

South Carolina

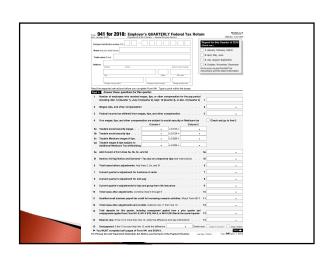
- The deposit schedule is the same as it is for federal deposits.
- Quarterly returns:
 - WH-1605 use for the first 3 quarters
 - $^{\circ}$ WH–1606 use for the 4th quarter as well as an annual reconciliation



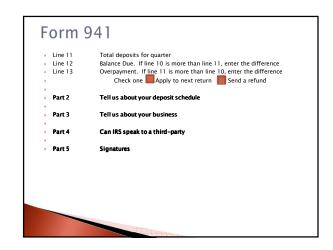


Form 941

- Form 941 Line by Line
- Top Box Employers EIN, Name and Address
- Top Right Box Indicate which quarter you are reporting

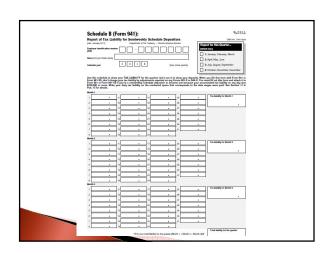


```
Part 1.
  Line 1
Line 2
                      Number of employees
                     Wages, tips and other compensation
 Line 3
Line 4
                     Total income tax withheld
                     If no wages, check here and go to line 6
 Line 5
                     Column 1
                                                                                Column 2
                      Taxable social security wages_____ x .124_____
 Line 5b
                      Taxable social security tips _____ x .124 _____
 Line 5c
Line 5d
                     Taxable Medicare wages & tips _____ x .029
Taxable wages & tips subject to
                     Additional Medicare Tax Withholding______ x.009_____
Add Column 2 from lines 5a, 5b, 5c and 5d
Section 3121(g) Notice and Demand-Tax due on unreported tips
  Line 5e
Line 5f
Line 6
                     Total taxes before adjustments. Add line 3, 5e and 5f
                      Current quarter's adjustment for fractions of cents
 Line 8
                     Current quarter's adjustment for sick pay
                      Current quarter's adjustment for tips and group-term insurance
Line 10
                     Total Taxes after adjustments. Combine line 6 through 9
```



Form 941

- Schedule B
- ▶ Report for Semi-weekly Depositors
- This is a record of your liability dates, NOT your deposit days. They already know when you made the deposit, now they want to compare your deposit dates with your pay dates.



Relating the Form 941 to the W2

Form W2 is the wage statement given to employees reporting all taxable wages, taxes withheld and certain benefits earned during the calendar year. The following is an example of how one form relates to the other:

Form 94	1		Form W2
Line 2	Federal Wages	Box 1	Federal Wages
Line 5a	Social Security Wages	Box 3	Social Security Wages
Line 5c	Medicare Wages	Box 5	Medicare Wages
Line 3	Fed Tax Withheld	Box 2	FITW
Line 5a	column 2 total SS Tax	Box 4 (employee portion only)
Line 5c	column 2 total Medicare 1	Tax Box 6 (employee portion only)

The IRS uses the four quarterly Forms 941 and compares them to the total of all W2s issued to see if the employer has reported the same wages to both the IRS and to the employees.

FUTA and Form 940

Another employment tax is covered by the Federal Unemployment Tax Act (FUTA). This tax is collected from employers to offset the cost of unemployment benefits paid out by states.

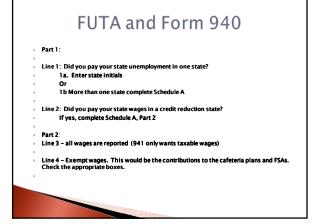
FUTA never pays the employee directly. It is used to fund state unemployment funds that go broke due to high periods of unemployment.

FUTA and Form 940

- The FUTA rate is 6% of the first \$7,000 of taxable wages paid to an employee. The government does, however, give the employer a credit for the taxes paid to its individual state unemployment funds.
- This credit is 5.4%, which makes the actual FUTA tax rate only 0.6%. The credit will be reduced if the employer fails to pay their individual state in a timely fashion.

FUTA and Form 940

- The Form 940 is filed annually.
- The taxes are deposited quarterly when they have reached a liability of \$500 or more.
- Reporting wages on a Form 940 differs somewhat from the Form 941.

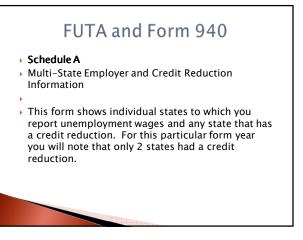


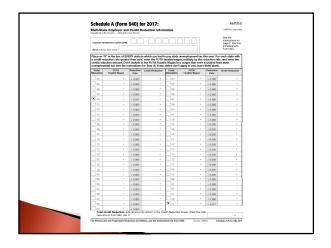
FUTA and Form 940 • Line 5 - show the amounts over the \$7,000 wage base paid to each employee. • Line 6 - the total of the exempt wages. • Line 7 - the taxable FUTA wage (subtract line 6 from line 3) • Line 8 - FUTA tax before adjustments (line 7 x .006 = line 8) • Part 3: • Line 9 - If ALL of the taxable FUTA wages you paid were excluded from SUI, multiple Line 7 by .054 then go to line 12 • Line 10 - if SOME of the taxable FUTA wages you paid were excluded from SUI or you paid SUI late, fill out worksheet and enter amount from line 7 of worksheet (90% credit reduction). • Line 11 - if credit reduction applies, enter the amount from line 3 of Schedule A

FUTA and Form 940 Part 4: Line 12 - Total FUTA tax after adjustments (lines 8 + 9 + 10 + 11 = Line 12). Line 13 - Tax deposited for the year Line 14/15 - Balance due/Overpayment

FUTA and Form 940 Part 5: Report your FUTA liability by quarter only if line 12 is more than \$500. If not, go to Part 6. Line 16 - a through d quarterly liability Line 17 - Total liability for the year Part 6: May we speak with your third party designee? Part 7: Sign and date return







BOORRRIINGGGG

- I hope I haven't bored you to death but sometimes our field isn't exciting, just detailed.
- Please let me know if you have questions.
- As always you may contact me at bhmartin99@gmail.com with any questions.

