

# NUTS AND BOLTS OF PAYROLL TAXES



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## NUTS AND BOLTS OF PAYROLL TAXES

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

## NUTS AND BOLTS OF PAYROLL 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!

Table 1. Collections and Refunds, by Type of Tax, Fiscal Years 2016 and 2017  
(Where amounts are in thousands of dollars)

Type of tax	Gross collections (1)		Refunds (2)		Net collections	
	2016	2017	Percentage of 2017 total	2017	Percentage of 2017 total	
	(1)	(2)	(3)	(4)	(5)	
United States, total	3,333,480,983	3,476,714,139	100.0	438,271,273	3,038,442,866	100.0
Excise income taxes	344,850,437	336,395,194	9.9	44,894,438	291,494,756	9.5
Corporate income tax	344,070,031	337,402,398	9.8	n/a	n/a	n/a
Top marginal corporate rate	35.0	35.0	n/a	n/a	n/a	n/a
Individual and estate and trust income taxes (6)	1,615,815,135	1,687,427,287	54.7	385,059,123	1,302,368,164	43.2
Individual income tax payments (7)	1,497,400,835	1,571,412,818	50.2	n/a	n/a	n/a
Individual income tax payments (7)	1,497,400,835	1,571,412,818	50.2	n/a	n/a	n/a
Estate and trust income tax (8)	25,000,300	25,000,300	0.8	1,589,265	23,411,035	0.8
Employment taxes	1,073,907,719	1,128,475,157	32.5	1,423,089	1,126,992,068	37.0
Old-Age, Survivors, Disability, and Hospital Insurance (OASDI), total (9)	1,059,026,128	1,105,231,486	32.0	1,362,049	1,103,869,437	37.1
Payroll Insurance Contributions Act (FICA)	1,059,026,128	1,105,231,486	32.0	n/a	n/a	n/a
Self-Employment Insurance Contributions Act (SECA)	59,234,327	61,862,833	1.8	n/a	n/a	n/a
Unemployment Insurance	5,646,264	6,380,838	0.2	158,991	6,221,847	0.2
Railroad Retirement	5,646,264	6,380,838	0.2	158,991	6,221,847	0.2
Estate and gift taxes	23,331,137	23,790,443	0.7	1,647,406	22,143,037	0.7
Estate	19,979,871	21,811,483	0.6	999,569	20,811,912	0.7
Gift	3,351,266	1,978,960	0.1	647,837	1,303,429	0.1
Other taxes (10)	19,832,889	45,003,889	1.3	1,648,887	43,355,002	1.4

- (1) - All available.
- (2) - Includes employment refunds, refunds resulting from overpayment activity, refundable tax credits, and other refunds required by law. Also includes \$1 billion in interest, of which \$500 million was paid to corporations and \$500 million was paid to all others (individuals, employment, estate, gift, and excise tax refunds).
- (3) - Excludes refunds credited to taxpayer accounts for tax liability in a subsequent year.
- (4) - Less than 10th percent.
- (5) - Collections of estimated individual income tax are not reported by taxpayers separately from Old-Age, Survivors, Disability, and Hospital Insurance (OASDI). Taxes on income and wages under the Federal Insurance Contributions Act (FICA) and on self-employment income under the Self-Employment Insurance Contributions Act (SECA). The OASDI tax collections and refunds shown in this table are based on estimates made by the Secretary of the Treasury pursuant to the provisions of Section 2001 of the Social Security Act as amended and include all OASDI taxes. Amounts shown for total individual income tax withheld and individual income tax payments were derived by subtracting the FICA and SECA tax estimates from total individual income tax withheld and individual income tax payments. Refund estimates, and, therefore, net collection estimates, were not made for the components of income and OASDI taxes.
- (6) - Includes collection of estimated estate and gift taxes and payments made in conjunction with estate and trust tax return filings.
- (7) - Includes collection of estimated estate and gift taxes and payments made in conjunction with estate and trust tax return filings.
- (8) - Excludes estate taxes collected by U.S. Customs and Border Protection and the Alcohol and Tobacco Tax and Trade Bureau. The Internal Revenue Service collects estate taxes on decedents' estates and Trusts' Year 1984, and taxes on decedents' Trusts' Year 1991. Beginning with Trusts' Year 2015, some refunds, which had been classified as estate tax refunds in prior years, were reclassified as corporate tax refunds.
- (9) - OASDI.
- (10) - Detail may not add to totals because of rounding.
- (11) - Collection and refund data may not be comparable for a given fiscal year because payments made in prior years may be refunded in the current fiscal year.
- (12) - Payments to, or collections from, investment companies, and real estate investment trusts are not shown in this table since these entities generally do not have a tax liability. Instead, they pass any profits or losses to the underlying owners, who include these profits or losses on their income tax returns.
- (13) - SOURCE: Chief Financial Officer, Financial Management.

## II. Tax Tables

- Publication 15
- Publication 15-A
- Publication 15-B

# Circular E – Pub 15, 15-A, and 15-B

[www.irs.gov](http://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.

Wage Bracket Method Tables for Income Tax Withholding  
MARIED Persons—BIWEEKLY Payroll Period  
(For Wages Paid through December 31, 2018)

And the wages are—	0	1	2	3	4	5	6	7	8	9	10
\$1,765	\$145	\$126	\$107	\$88	\$69	\$53	\$37	\$21	\$5		
1,785	147	128	109	90	71	55	39	23	7		
1,805	149	130	111	92	73	57	41	25	9		
1,825	151	132	113	94	75	59	43	27	11		
1,845	153	134	115	96	77	61	45	29	13		
1,865	155	136	117	98	79	63	47	31	15		
1,885	157	138	119	100	81	65	49	33	17		
1,905	159	140	121	102	83	67	51	35	19		
1,925	161	142	123	104	85	69	53	37	21		
1,945	163	144	125	106	87	71	55	39	23		
1,965	165	146	127	108	89	73	57	41	25		
1,985	167	148	129	110	91	75	59	43	27		
2,005	169	150	131	112	93	77	61	45	29		
2,025	171	152	133	114	95	79	63	47	31		
2,045	173	154	135	116	97	81	65	49	33		

## 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"

Wage Bracket Method Tables for Income Tax Withholding

MARRIED Persons—BIWEEKLY Payroll Period

(For Wages Paid through December 31, 2018)

And the wages are—	0	1	2	3	4	5	6	7	8	9
At least										
But less than										
\$1,765	\$145	\$126	\$107	\$88	\$69	\$53	\$37	\$21	\$5	
1,785	147	128	109	90	71	55	39	23	7	
1,805	149	130	111	92	73	57	41	25	9	
1,825	151	132	113	94	75	59	43	27	11	
1,845	153	134	115	96	77	61	45	29	13	
1,865	155	136	117	98	79	63	47	31	15	
1,885	157	138	119	100	81	65	49	33	17	
1,905	159	140	121	102	83	67	51	35	19	
1,925	161	142	123	104	85	69	53	37	21	
1,945	163	144	125	106	87	71	55	39	23	
1,965	165	146	127	108	89	73	57	41	25	
1,985	167	148	129	110	91	75	59	43	27	
2,005	169	150	131	112	93	77	61	45	29	
2,025	171	152	133	114	95	79	63	47	31	
2,045	173	154	135	116	97	81	65	49	33	

## 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.

## Federal Tax Tables

### Tables for Percentage Method of Withholding (For wages Paid after in 2018) Pub 15

Table 5. Percentage Method—2018 Amount for One Withholding Allowance

Payroll Period	One Withholding Allowance
Weekly	\$ 79.80
Biweekly	159.60
Semimonthly	172.90
Monthly	345.80
Quarterly	1,037.50
Semiannually	2,075.00
Annually	4,150.00
Daily or miscellaneous (each day of the payroll period)	16.00

## Federal Tax Tables

### Tables for Percentage Method of Withholding (For wages Paid after in 2018) Pub 15

TABLE 2—BIWEEKLY Payroll Period					
(a) SINGLE person (including head of household)— If the amount of wages (after subtracting withholding allowances) is:			(b) MARRIED person— If the amount of wages (after subtracting withholding allowances) is:		
Not over \$142	Over \$142	of excess over—	Not over \$444	Over \$444	of excess over—
Over—	But not over—		Over—	But not over—	
\$142	\$509	\$0.00 plus 10%	\$444	\$1,177	\$0.00 plus 10%
\$509	\$1,631	\$36.70 plus 12%	\$1,177	\$3,421	\$73.30 plus 12%
\$1,631	\$3,315	\$171.34 plus 22%	\$3,421	\$6,790	\$342.58 plus 22%
\$3,315	\$6,200	\$541.82 plus 24%	\$6,790	\$12,500	\$1,083.76 plus 24%
\$6,200	\$7,835	\$1,234.22 plus 32%	\$12,500	\$15,829	\$2,468.56 plus 32%
\$7,835	\$19,373	\$1,757.42 plus 35%	\$15,829	\$35,144	\$3,514.64 plus 35%
\$19,373		\$5,795.72 plus 37%	\$35,144	\$6,208.84 plus 37%	

## 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

## North Carolina State Taxes

**NC-4 Employee's Withholding Allowance Certificate**

**PURPOSE:** Complete Form NC-4 to give your employer the information needed to withhold the correct amount of state income tax from your wages. This form is used by your employer to determine the amount of state income tax to withhold from your wages. It is not a tax return.

**HEAD OF HOUSEHOLD:** If you are the head of a household, you must check the "Head of Household" box on this form. If you are not the head of a household, you must check the "Married Filing Jointly" or "Married Filing Separately" box on this form.

**SURVIVING SPOUSE:** If you are a surviving spouse, you must check the "Surviving Spouse" box on this form. If you are not a surviving spouse, you must check the "Married Filing Jointly" or "Married Filing Separately" box on this form.

**MARRIED FILING SEPARATELY:** If you are married and filing separately, you must check the "Married Filing Separately" box on this form. If you are not married and filing separately, you must check the "Married Filing Jointly" or "Married Filing Separately" box on this form.

**CAUTION:** If you furnish an employer with an Employer's Withholding Allowance Certificate that contains information which has no reasonable basis and results in a lesser amount of tax being withheld than would have been withheld had you furnished reasonable information, you are subject to a penalty of 50% of the amount not properly withheld.

**NC-4 Employee's Withholding Allowance Certificate**

1. Total number of allowances you are claiming (Enter only 0, or the number of allowances from Page 2, line 17 of the NC-4 Absentee Worksheet)

2. Additional amount, if any, withheld from each pay period (Enter whole dollar)

3. Single or Married Filing Separately ☐ Head of Household ☐ Married Filing Jointly or Surviving Spouse ☒

Employer's Signature \_\_\_\_\_ Date \_\_\_\_\_

## 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.

## North Carolina State Taxes

Single Person, Married Person, or Surviving Spouse - Biweekly Payroll Period

If the wages are - And the number of withholding allowances claimed is -

At least	But less than	0	1	2	3	4	5	6	7	8	9	10
1200	1240	50	45	40	35	30	25	20	15	10	5	0
1240	1280	55	50	45	40	35	30	25	20	15	10	5
1280	1320	60	55	50	45	40	35	30	25	20	15	10
1320	1360	65	60	55	50	45	40	35	30	25	20	15
1360	1400	70	65	60	55	50	45	40	35	30	25	20
1400	1440	75	70	65	60	55	50	45	40	35	30	25
1440	1480	80	75	70	65	60	55	50	45	40	35	30
1480	1520	85	80	75	70	65	60	55	50	45	40	35
1520	1560	90	85	80	75	70	65	60	55	50	45	40
1560	1600	95	90	85	80	75	70	65	60	55	50	45
1600	1640	100	95	90	85	80	75	70	65	60	55	50
1640	1680	105	100	95	90	85	80	75	70	65	60	55
1680	1720	110	105	100	95	90	85	80	75	70	65	60
1720	1760	115	110	105	100	95	90	85	80	75	70	65
1760	1800	120	115	110	105	100	95	90	85	80	75	70
1800	1840	125	120	115	110	105	100	95	90	85	80	75
1840	1880	130	125	120	115	110	105	100	95	90	85	80
1880	1920	135	130	125	120	115	110	105	100	95	90	85
1920	1960	140	135	130	125	120	115	110	105	100	95	90
1960	2000	145	140	135	130	125	120	115	110	105	100	95
2000	2040	150	145	140	135	130	125	120	115	110	105	100
2040	2080	155	150	145	140	135	130	125	120	115	110	105
2080	2120	160	155	150	145	140	135	130	125	120	115	110
2120	2160	165	160	155	150	145	140	135	130	125	120	115
2160	2200	170	165	160	155	150	145	140	135	130	125	120
2200	2240	175	170	165	160	155	150	145	140	135	130	125
2240	2280	180	175	170	165	160	155	150	145	140	135	130
2280	2320	185	180	175	170	165	160	155	150	145	140	135
2320	2360	190	185	180	175	170	165	160	155	150	145	140
2360	2400	195	190	185	180	175	170	165	160	155	150	145
2400	2440	200	195	190	185	180	175	170	165	160	155	150
2440	2480	205	200	195	190	185	180	175	170	165	160	155
2480	2520	210	205	200	195	190	185	180	175	170	165	160
2520	2560	215	210	205	200	195	190	185	180	175	170	165
2560	2600	220	215	210	205	200	195	190	185	180	175	170
2600	2640	225	220	215	210	205	200	195	190	185	180	175
2640	2680	230	225	220	215	210	205	200	195	190	185	180
2680	2720	235	230	225	220	215	210	205	200	195	190	185
2720	2760	240	235	230	225	220	215	210	205	200	195	190
2760	2800	245	240	235	230	225	220	215	210	205	200	195
2800	2840	250	245	240	235	230	225	220	215	210	205	200
2840	2880	255	250	245	240	235	230	225	220	215	210	205
2880	2920	260	255	250	245	240	235	230	225	220	215	210
2920	2960	265	260	255	250	245	240	235	230	225	220	215
2960	3000	270	265	260	255	250	245	240	235	230	225	220
3000	3040	275	270	265	260	255	250	245	240	235	230	225
3040	3080	280	275	270	265	260	255	250	245	240	235	230
3080	3120	285	280	275	270	265	260	255	250	245	240	235
3120	3160	290	285	280	275	270	265	260	255	250	245	240
3160	3200	295	290	285	280	275	270	265	260	255	250	245
3200	3240	300	295	290	285	280	275	270	265	260	255	250
3240	3280	305	300	295	290	285	280	275	270	265	260	255
3280	3320	310	305	300	295	290	285	280	275	270	265	260
3320	3360	315	310	305	300	295	290	285	280	275	270	265
3360	3400	320	315	310	305	300	295	290	285	280	275	270
3400	3440	325	320	315	310	305	300	295	290	285	280	275
3440	3480	330	325	320	315	310	305	300	295	290	285	280
3480	3520	335	330	325	320	315	310	305	300	295	290	285
3520	3560	340	335	330	325	320	315	310	305	300	295	290
3560	3600	345	340	335	330	325	320	315	310	305	300	295
3600	3640	350	345	340	335	330	325	320	315	310	305	300
3640	3680	355	350	345	340	335	330	325	320	315	310	305
3680	3720	360	355	350	345	340	335	330	325	320	315	310
3720	3760	365	360	355	350	345	340	335	330	325	320	315
3760	3800	370	365	360	355	350	345	340	335	330	325	320
3800	3840	375	370	365	360	355	350	345	340	335	330	325
3840	3880	380	375	370	365	360	355	350	345	340	335	330
3880	3920	385	380	375	370	365	360	355	350	345	340	335
3920	3960	390	385	380	375	370	365	360	355	350	345	340
3960	4000	395	390	385	380	375	370	365	360	355	350	345
4000	4040	400	395	390	385	380	375	370	365	360	355	350
4040	4080	405	400	395	390	385	380	375	370	365	360	355
4080	4120	410	405	400	395	390	385	380	375	370	365	360
4120	4160	415	410	405	400	395	390	385	380	375	370	365
4160	4200	420	415	410	405	400	395	390	385	380	375	370
4200	4240	425	420	415	410	405	400	395	390	385	380	375
4240	4280	430	425	420	415	410	405	400	395	390	385	380
4280	4320	435	430	425	420	415	410	405	400	395	390	385
4320	4360	440	435	430	425	420	415	410	405	400	395	390
4360	4400	445	440	435	430	425	420	415	410	405	400	395
4400	4440	450	445	440	435	430	425	420	415	410	405	400
4440	4480	455	450	445	440	435	430	425	420	415	410	405
4480	4520	460	455	450	445	440	435	430	425	420	415	410
4520	4560	465	460	455	450	445	440	435	430	425	420	415
4560	4600	470	465	460	455	450	445	440	435	430	425	420
4600	4640	475	470	465	460	455	450	445	440	435	430	425
4640	4680	480	475	470	465	460	455	450	445	440	435	430
4680	4720	485	480	475	470	465	460	455	450	445	440	435
4720	4760	490	485	480	475	470	465	460	455	450	445	440
4760	4800	495	490	485	480	475	470	465	460	455	450	445
4800	4840	500	495	490	485	480	475	470	465	460	455	450
4840	4880	505	500	495	490	485	480	475	470	465	460	455
4880	4920	510	505	500	495	490	485	480	475	470	465	460
4920	4960	515	510	505	500	495	490	485	480	475	470	465
4960	5000	520	515	510	505	500	495	490	485	480	475	470
5000	5040	525	520	515	510	505	500	495	490	485	480	475
5040	5080	530	525	520	515	510	505	500	495	490	485	480
5080	5120	535	530	525	520	515	510	505	500	495	490	485
5120	5160	540	535	530	525	520	515	510	505	500	495	490
5160	5200	545	540	535	530	525	520	515	510	505	500	495
5200	5240	550	545	540	535	530	525	520	515	510	505	495
5240	5280	555	550	545	540	535	530	525	520	515	510	505
5280	5320	560	555	550	545	540	535	530	525	520	515	510
5320	5360	565	560	555	550	545	540	535	530	525	520	515
5360	5400	570	565	560	555	550	545	540	535	530	525	520
5400	5440	575	570	565	560	555	550	545	540	535	530	525
5440	5480	580	575	570	565	560	555	550	545	540	535	530
5480	5520	585	580	575	570	565	560	555	550	545	540	535
5520	5560	590	585	580	575	570	565	560	555	550	545	540
5560	5600	595	590	585	580</							

### ▶ 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?

## Federal Weekly Percentage Chart

Percentage Method Tables for Income Tax Withholding

(For Wages Paid in 2018)

TABLE 1—WEEKLY Payroll Period

(a) SINGLE person (including head of household)— If the amount of wages (after subtracting withholding allowances) is:				(b) MARRIED person— If the amount of wages (after subtracting withholding allowances) is:			
The amount of income tax to withhold is:				The amount of income tax to withhold is:			
Not over \$71	Over—	But not over—	of excess over—	Not over \$222	Over—	But not over—	of excess over—
\$71	—\$254	\$0.00 plus 10%	—\$71	\$222	—\$588	\$0.00 plus 10%	—\$222
\$254	—\$815	\$18.00 plus 12%	—\$254	\$588	—\$1,111	\$36.00 plus 12%	—\$588
\$815	—\$1,658	\$85.02 plus 22%	—\$815	\$1,111	—\$3,395	\$171.36 plus 22%	—\$1,111
\$1,658	—\$3,100	\$271.06 plus 24%	—\$1,658	\$3,395	—\$6,280	\$541.84 plus 24%	—\$3,395
\$3,100	—\$3,917	\$517.15 plus 32%	—\$3,100	\$6,280	—\$7,914	\$1,238.24 plus 32%	—\$6,280
\$3,917	—\$9,687	\$878.60 plus 35%	—\$3,917	\$7,914	—\$11,761	\$1,757.12 plus 35%	—\$7,914
\$9,687	—	\$2,896.10 plus 37%	—\$9,687	\$11,761	—	\$5,105.57 plus 37%	—\$11,761

Step 1		401(k)	Gross Taxable Amount \$	850.00
			4% \$	(34.00)
		Section 125 Health	\$	(25.00)
		Reduced Taxable	\$	791.00
Step 2	Week, Biweekly, Month etc....	Weekly		
Step 3	Number of Allowance	2		
Step 4	Value of each Allowance	79.80		
Step 5	Step 3 x Step 4	\$ 159.60	minus \$	159.60
Step 6	Step 5 minus Step 4		Total \$	631.40
Step 7	Single or Married	Married		
Step 8	Choose table for Step 2 and 7	2b		
Step 9	Find amount on table enter amount in the Over column		minus \$	588.00
Step 10	Step 6 minus Step 9		Total \$	43.40
Step 11	Step 10 x % on table	12%	\$	5.21
Step 12	Step 11 plus amount on table	\$36.60	Amount Withheld \$	41.81
			FICA Taxable	\$
			Social Security	\$ (51.15)
			Medicare	\$ (11.96)
			Net pay	\$ 686.08

## 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	<u>7.00%</u>
▶ Total of taxes	36.65%

- ▶ What is her gross check?

▶	100.00%
▶ Less	<u>36.65%</u>
▶	63.35%

- ▶ \$500 desired net ÷ .6335 = \$789.27

- ▶ Proof:

▶ Federal Tax	22%	\$173.64
▶ Social Security Tax	6.2%	48.93
▶ Medicare Tax	1.45%	11.45
▶ State Tax	7.00%	<u>55.25</u>
▶ 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 within \$300 of the maximum 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 ( $6.2\% \times \$300 = \$18.60$ ) and add that amount to the desired net and then continue with the formula as before but without the 6.2% for SS.

▶ Federal withholding	22.00%
▶ Medicare Tax	1.45%
▶ VA State Tax	<u>7.00%</u>
▶ Total of taxes	30.45%
▶	100.00%
▶ Less	<u>30.45%</u>
▶	69.55%

- ▶ Desired net \$500 plus Social Security tax of \$18.50 = \$518.60 "new" net
- ▶
- ▶  $\$518.60 \div .6955 = \text{gross}$  \$745.65
- ▶ Proof:
- ▶ Federal Tax 164.04
- ▶ **Social Security Tax 18.60**
- ▶ Medicare Tax 10.81
- ▶ State Tax 52.20
- ▶ 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 2<sup>nd</sup> 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 ALL federal taxes must be deposited using EFT (corporate as well as payroll).



## Electronic Federal Tax Payment System

**Business Tax Payment** settlement date calendar are provided for your convenience.

If you select the next business date for the funds to be electronically transferred from your account, you will not be able to cancel this payment. EFTPS requires at least 2 business days' notice to cancel a payment.

For fiscal year taxpayers, please enter the four-digit year in which your tax filing period ends. [open filing period help modal](#)

Payments will be debited from the banking account associated with this enrollment (identified below). If you want to use a different account, click "Change Account" next to the payment.

Payment Amount	\$ 36813.58 (example: 1234.56)	<a href="#">open Payment Amount help modal</a>
Tax Period	Quarter Q1	<a href="#">open Tax Period help modal</a>
Year	2018 (yyyy)	<a href="#">open Settlement Date help modal</a>
Settlement Date	03/12/2018 (mm/dd/yyyy)	

## EFTPS

**Sub Category Amounts**

For the tax form you have selected, please break down the amount being paid into one or more of the following Sub Categories. The total of Sub Category amounts must equal your Payment Amount. [open Subcategories help modal](#)

**PLEASE NOTE**  
Any amounts represented in the subcategories of Social Security, Medicare, and Income Tax Withholding are for informational purposes only.

Tax Form Selected	
Tax Form	941 Employers Federal Tax
Tax Type	Federal Tax Deposit
Payment Amount	\$36,813.58

Sub Category Amounts	
1 Social Security	\$ 21006.42
2 Medicare	\$ 4912.80
3 Tax Withholding	\$ 10894.36

### ▶ 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 15<sup>th</sup> 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
  - WH-1606 – use for the 4<sup>th</sup> quarter as well as an annual reconciliation

For the quarter ending ...	File your return and payment by ...
March 31	April 30
June 30	July 31
September 30	October 31
December 31	January 31

## ▶ IV Forms

## 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 Number of employees
- ▶ Line 2 Wages, tips and other compensation
- ▶ Line 3 Total income tax withheld
- ▶ Line 4 If no wages, check here and go to line 6
- ▶ Line 5 Column 1 Column 2
- ▶ Line 5a Taxable social security wages \_\_\_\_\_ x .124 \_\_\_\_\_
- ▶ Line 5b Taxable social security tips \_\_\_\_\_ x .124 \_\_\_\_\_
- ▶ Line 5c Taxable Medicare wages & tips \_\_\_\_\_ x .029 \_\_\_\_\_
- ▶ Line 5d Taxable wages & tips subject to  
Additional Medicare Tax Withholding \_\_\_\_\_ x .009 \_\_\_\_\_
- ▶ Line 5e Add Column 2 from lines 5a, 5b, 5c and 5d
- ▶ Line 5f Section 3121(g) Notice and Demand—Tax due on unreported tips
- ▶ Line 6 Total taxes before adjustments. Add line 3, 5e and 5f
- ▶ Line 7 Current quarter's adjustment for fractions of cents
- ▶ Line 8 Current quarter's adjustment for sick pay
- ▶ Line 9 Current quarter's adjustment for tips and group-term insurance
- ▶ Line 10 Total Taxes after adjustments. Combine line 6 through 9

## Form 941

- ▶ Line 11 Total deposits for quarter
- ▶ Line 12 Balance Due. If line 10 is more than line 11, enter the difference
- ▶ Line 13 Overpayment. If line 11 is more than line 10, enter the difference  
Check one ☐ Apply to next return ☐ Send a refund
- ▶ **Part 2** Tell us about your deposit schedule
- ▶ **Part 3** Tell us about your business
- ▶ **Part 4** Can IRS speak to a third-party
- ▶ **Part 5** Signatures

## 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.**

**Schedule B (Form 941):**  
Report of Tax Liability for Semi-weekly Schedule Depositors

OMB No. 1545-0047

Employer identification number: \_\_\_\_\_

Employer name (not your name): \_\_\_\_\_

Calendar year: \_\_\_\_\_

Report for this quarter:  
Check one:  
☐ 1 January, February, March  
☐ 2 April, May, June  
☐ 3 July, August, September  
☐ 4 October, November, December

Use this schedule to show your TAX LIABILITY for the quarter. Don't use it to show your deposits. When you file this form with Form 941 or Form 941-E, you must also file your schedule for the quarter. Schedule B is due on the 15th day of the month following the end of the quarter. Write your liability for the scheduled quarter that corresponds to the date wages were paid. See Section 11 in the Form 941 instructions.

Month	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Total liability for the quarter
Month 1																																
Month 2																																
Month 3																																
Month 4																																
If you have a liability for the quarter (Month 1 + Month 2 + Month 3 + Month 4)																															Total liability for the quarter	

### ▶ 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 941		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 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.

## Form 940 without Reduction

**940 for 2017: Employer's Annual Federal Unemployment (FUTA) Tax Return**

**Part 1:** Did you pay your state unemployment tax in one state only, enter the state abbreviation? **1a.** Enter state initials **Or** **1b.** More than one state complete Schedule A

**Part 2:** Did you pay your state wages in a credit reduction state? If yes, complete Schedule A, Part 2

**Part 3:** FUTA tax before adjustments (line 7 x 0.006 = line 8)

**Part 4:** FUTA tax after adjustments (line 8 + 9 + 10 + 11 = line 12)

**Part 5:** FUTA tax deposited for the year, including any overpayment applied from a prior year

**Part 6:** Balance due, if any (line 12 minus line 14, enter the result on line 14)

## FUTA and Form 940

- ▶ **Part 1:**
- ▶ **Line 1:** Did you pay your state unemployment in one state?
  - 1a. Enter state initials
  - Or
  - 1b More than one state complete Schedule A
- ▶ **Line 2:** Did you pay your state wages in a credit reduction state? If yes, complete Schedule A, Part 2
- ▶ **Part 2:**
- ▶ **Line 3** – all wages are reported (941 only wants taxable wages)
- ▶ **Line 4** – Exempt wages. This would be the contributions to the cafeteria plans and FSAs. Check the appropriate boxes.

## 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

Worksheet		
Total FUTA liability	\$35,000.00	
	6.00%	\$2,100.00
State SUI	4.70%	\$1,645.00
Let's say 80% was paid on time and 20% paid a week after the 940 was filed		
\$1645 x 80%	\$1,316.00	
amount paid late \$329 x 90%	\$296.10	
Normal FUTA credit	\$1,612.10	\$1,612.10
Additional credit because state was lower than 5.4%		
\$35,000 x (5.4% - 4.7%) .07%	\$245.00	\$245.00
total FUTA credit		\$1,857.10
Net FUTA liability \$2100.00 - \$1857.10		\$242.90

## Form 940 With Credit Reduction

## FUTA and Form 940

- **Schedule A**
- Multi-State Employer and Credit Reduction Information
- This form shows individual states to which you report unemployment wages and any state that has a credit reduction. For this particular form year you will note that only 2 states had a credit reduction.

## BOORRRRINGGGG

- 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](mailto:bhmartin99@gmail.com) with any questions.

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