

Ch.12 Accounting for Payroll: Employer Taxes and Reports

- Calculate Employer's Payroll Taxes
- Record Employer's Payroll Taxes
- Forms 8109 & 941
- Form 940
- Forms W-2 & W-3
- Account For Workers' Compensation Insurance

Employer's Payroll Taxes

- All employers are required to pay certain taxes to federal and state authorities on behalf of employees.
- The three basic payroll taxes paid by most employers are:
 - ❖ FICA (both OASDI and HI)
 - ❖ Federal unemployment taxes
 - ❖ State unemployment taxes

Payroll Tax Expense

Since payroll taxes are a necessary part of operating a business, they are recorded in the Payroll Tax Expense account, an operating expense account.

Payroll Tax Expense	
Debit +	Credit -
<div data-bbox="79 839 610 1109" style="border: 1px solid black; padding: 5px; width: fit-content;">Expense accounts are increased on the debit side.</div> <p>Employer's matching portion of FICA taxes</p> <p>Federal unemployment taxes</p> <p>State unemployment taxes</p>	<p>Balance of the account closed to Income Summary at the end of the accounting period.</p>

FICA Tax

- A matching tax paid equally by the employer and the employee
- The OASDI tax rate: 6.2% on the first \$113,700 of annual earnings
- The HI tax rate: 1.45% on unlimited annual earnings
- Assume an employee earns \$3,500 during the current pay period. What would the OASDI and HI taxes be?

OASDI	$\$3,500 \times 0.062$	=	\$217.00
HI	$\$3,500 \times 0.0145$	=	<u>50.75</u>
Total FICA tax			\$267.75

Federal Unemployment Tax (FUTA)

- **Requires the payment of taxes to provide benefits for workers during periods of temporary unemployment**
- **Unlike FICA, paid only by the employer; cannot be withheld from the pay of employees**
- **FUTA tax rate: 6.2% on the first \$7,000 of wages paid to each employee during the calendar year**
 - ❑ **The employer may take a credit of up to 5.4% for timely contributions to state unemployment funds**
 - ❑ **This leaves an effective FUTA rate of only 0.8% (6.2% – 5.4%)**

State Unemployment Tax (SUTA)

- **The State Unemployment Tax Act (SUTA) law requires employers to pay unemployment taxes (for the benefit of employees) to the states in which they conduct business.**
- **The taxable base for SUTA taxes varies from state to state.**
- **Most states have a merit-rating system that provides a lower rate as an incentive for employers to stabilize employment.**

Partial Payroll Register Showing Taxable Earnings for FUTA, SUTA, and FICA

Amount of earnings this pay period subject to FUTA and SUTA taxes

Northwest Company Payroll Register for Week Ended November 18, 20X3																			
No.	Name	Status	Cumulative Earnings			Tot. Hrs.	Earnings			Taxable Earnings									
							Regular	Overtime	Total	Unemployment	FICA								
											OASDI	HI							
1	Adams, William	M-2	102	100	00	40	1215	00	—	1215	00	—	1215	00	1				
2	Champion, Maureen	S-1	65	00	00	40	240	00	—	240	00	240	00	240	00	2			
3	Jackson, Joy	M-0	172	10	00	45	320	00	60	00	380	00	380	00	3				
4	Kemp, Mary	S-0	69	00	00	40	809	00	—	809	00	100	00	809	00	4			
5	Morgan, Sam	M-2	177	20	00	40	360	00	—	360	00	—	360	00	5				
6	Sheppard, Anne	S-1	396	00	00	44	400	00	60	00	460	00	460	00	6				
7	Totals						3344	00	120	00	3464	00	340	00	2249	00	3464	00	7

FUTA taxes: $\$340 \times .008 = \2.72
 SUTA taxes: $\$340 \times .027 = \9.18

OASDI taxes: $\$2,249 \times .062 = \139.44

HI taxes: $\$3,464 \times .0145 = \50.23

Review Quiz 12-1

Assuming the current FICA rates, a FUTA rate of 0.8%, and a SUTA rate of 2.7%, calculate the employer's payroll taxes for the following payroll.

Employee	Earnings		FICA				
	Year-to-Date	This Period	OASDI	HI	FUTA	SUTA	
King	\$14,500	\$396.00	\$24.55	\$5.74	0	0	
Maris	6,750	318.00	19.72	4.61	\$2.00	\$6.75	
Mimms	33,000	675.00	41.85	9.79	0	0	
Todd	5,400	215.50	13.36	13.12	1.72	5.82	
Wade	6,900	200.00	12.40	2.90	.80	2.70	
Totals			\$111.88	\$26.16	\$4.52	\$15.27	\$157.83

FICA Tax Payable—OASDI Account

- The employer must match the OASDI taxes paid by the employees.
- The same account is used to record both the employees' and the employer's share.
 - ❑ Credited to record OASDI taxes imposed on the employer
 - ❑ Debited when the taxes are sent in

FICA Tax Payable—OASDI		FICA Tax Payable—HI	
Debit	Credit	Debit	Credit
-	+	-	+
Payment of OASDI taxes previously withheld from employees or imposed on the employer	OASDI taxes: (1) withheld from employees <i>and</i> (2) imposed on the employer	Payment of HI taxes previously withheld from employees or imposed on the employer	HI taxes: (1) withheld from employees <i>and</i> (2) imposed on the employer

FUTA Tax Payable Account

- A current liability account used to record the employer's obligation for federal unemployment taxes
- Credited when taxes are imposed on the employer
- Debited when the taxes are sent in

FUTA Tax Payable	
Debit	Credit
–	+
Payment of FUTA taxes	FUTA taxes imposed on the employer

SUTA Tax Payable Account

- A current liability account used to record the employer's obligation for state unemployment taxes
- Credited when taxes are imposed on the employer
- Debited when the taxes are sent in

SUTA Tax Payable	
Debit	Credit
–	+
Payment of SUTA taxes	SUTA taxes imposed on the employer

Filing Reports and Making Payroll Tax Payments

- **Employers must complete on a timely basis**
- **To file tax reports, employers must have an Employer Identification Number (EIN)**
 - ❑ **A nine-digit number issued by the IRS**
 - ❑ **To a business what a Social Security Number (SSN) is to an individual**
- **Three areas:**
 - ❑ **FICA taxes and federal income taxes**
 - ❑ **Federal unemployment taxes**
 - ❑ **State unemployment taxes**

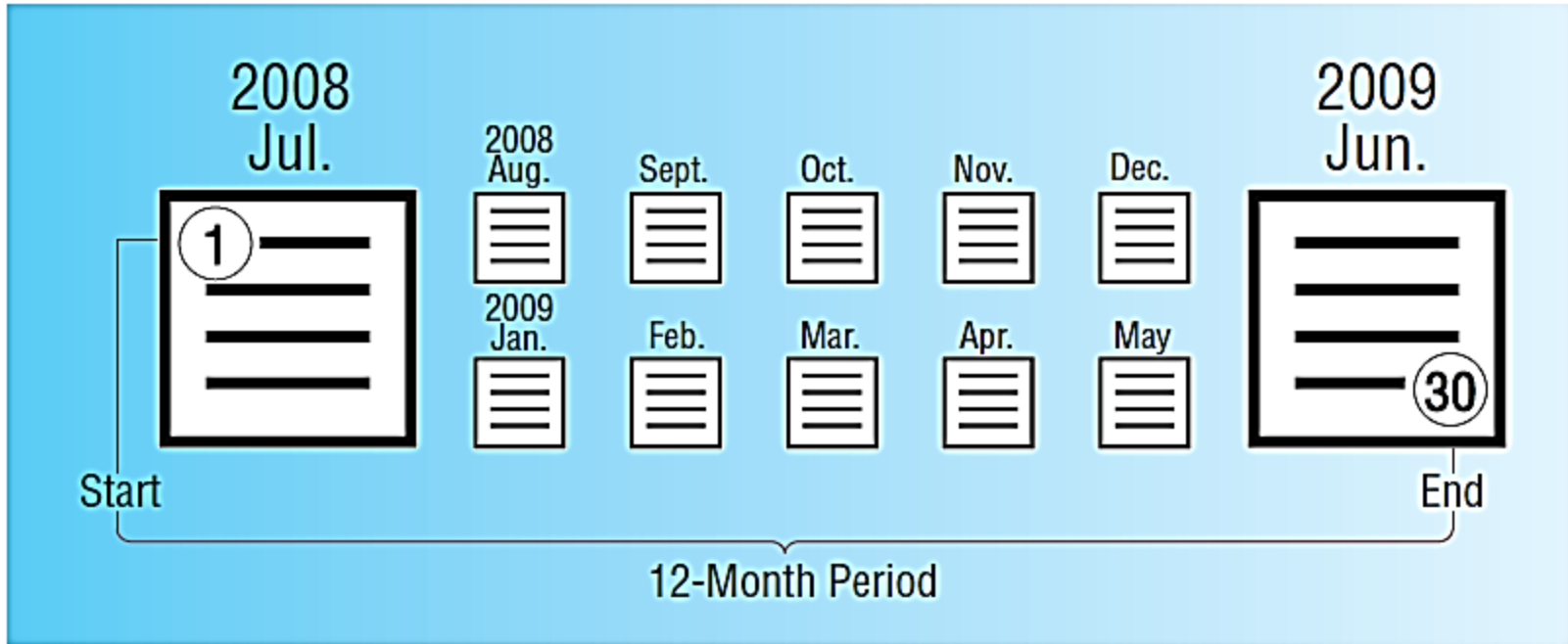
FICA and Federal Income Taxes

- **Form 941, Employer's Quarterly Federal Tax Return**
 - ❑ **A quarterly report**
 - ❑ **Summarizes FICA taxes (employer and employee shares) and federal income taxes withheld during the quarter**
- **If employer's total tax liability is less than \$2,500, payment may be sent with Form 941**
- **If employer's total taxes exceed \$2,500**
 - ❑ **Not permitted to send payment directly to the IRS at the end of the quarter**
 - ❑ **Taxes must be deposited by electronic funds transfer or in a Federal Reserve bank**

When to Deposit Taxes

- Employers can electronically deposit FICA taxes and federal income taxes withheld from employees by
 - ❑ Using the Electronic Federal Tax Payment System (EFTPS)
 - ❑ Mailing or delivering a check to a Federal Reserve bank
- There are two deposit schedules — monthly or semiweekly — for determining when taxes must be deposited.
- Determining which schedule to use is based on the employer's total tax liability reported during a 12-month lookback period.
- The lookback period for any year is the 12-month period beginning on July 1 *two years* prior to the current year, and ending on June 30, one year prior to the current year.

Lookback Period for 2010



Monthly Deposit Schedule

- An employer is a monthly depositor for the current year if the total taxes (FICA and withheld federal income taxes) for the lookback period were \$50,000 or less.
- Under the monthly deposit schedule, taxes must be deposited by the 15th day of the following month.

Semiweekly Deposit Schedule

- **If an employer's total taxes during the lookback period were more than \$50,000, the semiweekly deposit schedule is required.**
- **Under the semiweekly deposit schedule, taxes on payroll payments made on Wednesday, Thursday or Friday must be deposited by the following Wednesday.**
- **Taxes on payroll payments made on Saturday, Sunday, Monday or Tuesday must be deposited by the following Friday.**

Semiweekly Deposit Schedule

If the payday falls on:	Then deposit taxes by the following:
Wednesday, Thursday or Friday	Wednesday
Saturday, Sunday, Monday or Tuesday	Friday

The \$100,000 Next-Day Deposit Rule

- If an employer accumulates a tax liability of \$100,000 or more on any day during a deposit period, the taxes must be deposited the next business day.
- The monthly and semiweekly deposit schedules don't apply
- Must deposit the taxes the next business day

Accounting for Taxes Deposited

When any deposit of taxes is made, the employer should complete and submit to the bank a Form 8109, Federal Tax Deposit Coupon.

<p>MONTH TAX YEAR ENDS → 12</p>		<p>AMOUNT OF DEPOSIT (Do NOT type, please print.)</p> <table border="1"> <tr> <th colspan="5">DOLLARS</th> <th colspan="3">CENTS</th> </tr> <tr> <td></td><td></td><td></td><td></td><td></td> <td>1</td><td>6</td><td>0</td> </tr> <tr> <td></td><td></td><td></td><td></td><td></td> <td>9</td><td>1</td><td>8</td> </tr> </table>		DOLLARS					CENTS								1	6	0						9	1	8	<table border="1"> <tr> <th colspan="2">Darken only one TYPE OF TAX</th> <th rowspan="2">Band</th> <th colspan="2">Darken only one TAX PERIOD</th> </tr> <tr> <td><input checked="" type="checkbox"/> 941</td> <td><input type="checkbox"/> 945</td> <td><input checked="" type="checkbox"/> 1st Quarter</td> <td></td> </tr> <tr> <td><input type="checkbox"/> 1120</td> <td><input type="checkbox"/> 1042</td> <td><input type="checkbox"/></td> <td><input type="checkbox"/> 2nd Quarter</td> </tr> <tr> <td><input type="checkbox"/> 943</td> <td><input type="checkbox"/> 990-T</td> <td><input type="checkbox"/></td> <td><input type="checkbox"/> 3rd Quarter</td> </tr> <tr> <td><input type="checkbox"/> 720</td> <td><input type="checkbox"/> 990-PF</td> <td><input type="checkbox"/></td> <td><input type="checkbox"/> 4th Quarter</td> </tr> <tr> <td><input type="checkbox"/> CT-1</td> <td><input type="checkbox"/> 944</td> <td></td> <td></td> </tr> <tr> <td><input type="checkbox"/> 940</td> <td></td> <td></td> <td></td> </tr> </table>		Darken only one TYPE OF TAX		Band	Darken only one TAX PERIOD		<input checked="" type="checkbox"/> 941	<input type="checkbox"/> 945	<input checked="" type="checkbox"/> 1st Quarter		<input type="checkbox"/> 1120	<input type="checkbox"/> 1042	<input type="checkbox"/>	<input type="checkbox"/> 2nd Quarter	<input type="checkbox"/> 943	<input type="checkbox"/> 990-T	<input type="checkbox"/>	<input type="checkbox"/> 3rd Quarter	<input type="checkbox"/> 720	<input type="checkbox"/> 990-PF	<input type="checkbox"/>	<input type="checkbox"/> 4th Quarter	<input type="checkbox"/> CT-1	<input type="checkbox"/> 944			<input type="checkbox"/> 940			
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<p>BANK NAME/ DATE STAMP</p>		<p>Name <u>Sondra Smith</u></p> <p><u>Northwest Company</u></p> <p>Address <u>212 Bullard Avenue</u></p> <p>City <u>Ames</u></p> <p>State <u>NJ</u> ZIP <u>07003</u></p>		<p>Telephone number <u>(609) 555-5555</u></p>																																																						
<p>Federal Tax Deposit Coupon Form 8109 (Rev. 12-20XX)</p>		<p>FOR BANK USE IN MICR ENCODING</p>																																																								

Recording Payment of Employee's Income Taxes and FICA Taxes

- liability
- liability
- liability
- asset

	20X3																		
1	Apr.	14	Federal Income Tax Payable					8	5	3	75								1
2			FICA Tax Payable—OASDI					6	1	2	24								2
3			FICA Tax Payable—HI					1	4	3	19								3
4			Cash											1	6	0	9	18	4
5			Deposited taxes for first quarter.																5

Note:

Please take a look at Form 941 in your textbook as your reference.

Steps to Determine Tax Deposit Schedule for FICA and Withheld Federal Income Taxes

1. Identify the lookback period for the current year.
2. Add the total taxes reported on line 8 of Forms 941 filed during the lookback period.
3. Determine if you are a monthly or semiweekly schedule depositor:

IF the total taxes reported on Forms 941 during the look period were:

THEN you are a:

\$50,000 or less

Monthly schedule depositor

More than \$50,000

Semiweekly schedule depositor

If you accumulate \$100,000 or more in taxes during any deposit period, a deposit is required the next business (banking) day.

Federal Unemployment Taxes

- When the FUTA tax liability exceeds \$500, a deposit must be made by the last day of the month following the end of the quarter.
- If the FUTA tax liability is \$500 or less at the end of a quarter, the balance may be rolled over to the next quarter and subsequent quarters until the liability exceeds \$500 — or until January 31 of the following year, whichever comes first.
- If the FUTA liability is \$500 or less at the end of the fourth quarter, the employer must pay the tax when Form 940 is filed.
- Every employer that incurs a FUTA tax liability must file Form 940 with the IRS.

Form 940

- Employer's Annual Federal Unemployment Tax Return
- Must be filed by the employer on January 31, following the end of the year
- Summarizes the quarterly FUTA deposits made during the preceding year

Note:

Please take a look at Form 940 in your textbook as your reference.

State Unemployment Taxes

- Each state provides its own special forms and specifies how state unemployment taxes are paid.
- Generally, the amount of state unemployment taxes imposed on employers must be remitted to the proper state office by the end of the month following the close of the calendar quarter in which wages and salaries were earned by employees.

Form W-2: Wage and Tax Statement

- By January 31 of each year, employers are required to furnish copies of Form W-2 to each person who was employed in any part of the previous year. The employer is also required to send a copy of each employee's Form W-2 directly to the Social Security Administration.

22222		Void <input type="checkbox"/>	a Employee's social security number 422-22-6222		For Official Use Only ▶ OMB No. 1545-0008		
b Employer identification number (EIN) 15-7235467			1 Wages, tips, other compensation \$19,562.00		2 Federal income tax withheld \$468.00		
c Employer's name, address, and ZIP code Northwest Company 212 Bullard Ave. Ames, NJ 07003			3 Social security wages \$19,562.00		4 Social security tax withheld \$1,212.84		
			5 Medicare wages and tips \$19,562.00		6 Medicare tax withheld \$283.65		
			7 Social security tips		8 Allocated tips		
d Control number			9 Advance EIC payment		10 Dependent care benefits		
e Employee's first name and initial Sam		Last name Morgan		Suff.		11 Nonqualified plans	
1244 Oak Street Ames, NJ 07003			12a See instructions for box 12 #SSC		12b #SSC		
			13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12c #SSC		
			14 Other		12d #SSC		
f Employee's address and ZIP code			15 State Employer's state ID number NJ 28677		16 State wages, tips, etc. \$19,562.00		
			17 State income tax \$286.00		18 Local wages, tips, etc.		
					19 Local income tax		
					20 Locality name		
25							

Form W-3: Transmittal of Wage and Tax Statements

- Employers must file Form W-3 with the Social Security Administration by the last day of February following each year.
- Summarizes the earnings and tax deductions of all employees of the firm for the previous year.

DO NOT STAPLE						
33333		a Control number		For Official Use Only ▶ OMB No. 1545-0008		
b Kind of Payer ▶	<input checked="" type="checkbox"/> 941	Military	<input type="checkbox"/> 943	<input type="checkbox"/> 944	1 Wages, tips, other compensation \$128,300.00	2 Federal income tax withheld \$14,245.00
	<input type="checkbox"/> CT-1	Hshld. emp.	Medicare govt. emp.	Third-party sick pay	3 Social security wages \$122,600.00	4 Social security tax withheld \$7,601.20
c Total number of Forms W-2 6		d Establishment number 6		5 Medicare wages and tips \$128,300.00	6 Medicare tax withheld \$1,860.35	7 Social security tips
e Employer identification number (EIN) 15-7235467				8 Allocated tips	9 Advance EIC payments	10 Dependent care benefits
f Employer's name Northwest Company Sondra Smith 212 Bullard Avenue Ames, NJ 07003				11 Nonqualified plans	12 Deferred compensation	
g Employer's address and ZIP code				13 For third-party sick pay use only		
h Other EIN used this year				14 Income tax withheld by payer of third-party sick pay		
15 State	Employer's state ID number			16 State wages, tips, etc. \$128,300.00	17 State income tax \$4,460.00	
NJ	28677			18 Local wages, tips, etc.	19 Local income tax	
Contact person				Telephone number (609) 555-5555	For Official Use Only	
Email address				Fax number ()		
Under penalties of perjury, I declare that I have examined this return and accompanying documents, and, to the best of my knowledge and belief, they are true, correct, and complete.						
Signature ▶ Sondra Smith			Title ▶ Owner		Date ▶ 1-11-X4	
Form W-3 Transmittal of Wage and Tax Statements				20X3		
Department of the Treasury Internal Revenue Service						

Workers' Compensation Insurance

- To provide protection for employees who suffer a job-related illness or injury
- Required by most states
- The entire cost usually paid by the employer
- The cost depends on
 - ❑ The number of employees a company has
 - ❑ The company's accident history
 - ❑ Risk factors associated with the job

Accounting for Workers' Compensation Insurance

- Assume Gilbert Company estimates its total payroll for the year to be \$500,000.
- Gilbert's premium rate for workers' compensation insurance is 0.2%.
- The following entry is prepared at the beginning of the year based on estimated total payroll and the premium rate assigned to the company.

Jan.	1	Workers' Comp. Insurance Expense	1,000	
		Cash		1,000

- At year-end, Gilbert's actual payroll for the year was \$525,000. The following adjusting entry would be prepared on December 31.

Dec.	31	Workers' Comp. Insurance Expense	50	
		Workers' Comp. Insurance Payable		50