Let’s Get Back to the Basics of Withholding, Depositing and Reporting Federal Taxes

Presented on Thursday, August 25, 2016
Housekeeping

Credit

Questions

Today’s topic

Speaker

SUBMITTED FOR CREDIT
To earn RCH credit you must

Stay on the webinar, online for the full 60 minutes

Be watching using your unique URL

Certificates delivered by email, to registered email, by September 26th
Our Focus For Today

- Introduction to the federal tax system
- Federal Income Tax
- FICA taxes
- FUTA tax
- Basic rules for successor employers
- Common paymaster basics
- Depositing requirements
- Reporting requirements
- Penalties
Vicki M. Lambert, CPP, is President and Academic Director of *The Payroll Advisor™*, a firm specializing in payroll education and training. The company’s website [www.thepayrolladvisor.com](http://www.thepayrolladvisor.com) offers a subscription payroll news service which keeps payroll professionals up-to-date on the latest rules and regulations.

**The Payroll Pause Newsletter from ThePayrollAdvisor.com Announces Its Summer Sale!**

Stay up-to-date on the latest payroll news and regulations with *The Payroll Pause*, an annual subscription news service from ThePayrollAdvisor.com and its founder, Vicki Lambert. Use code **P6XJ05K3057** to for the discounted annual subscription price of $99, more than 33% off its normal price.
Intro to Federal Tax System

- Under what is called “Pay-as-you-go plan enacted in 1943
- 16\textsuperscript{th} amendment to the Constitution—1909/1913
- Federal Income Tax
- FICA and FUTA taxes added later
  - Social security and unemployment insurance in the 1930’s
  - Medicare in the 1960’s
  - Additional Medicare Tax 2013
- Internal Revenue Code or IRC
Obtaining an EIN

- Employer Identification Number or EIN
- 9-digit number issued by IRS
- Complete Form SS-4 or its equivalent
- Prior to 2001 numbers where geographical after that centralized
- May apply by phone, internet, fax or mail
- If applying on internet or phone usually just need the info on Form SS-4 but do not submit the form itself

©2016 The Payroll Advisor
Federal Income Tax

Methods for withholding

- Wage Bracket Method
- Percentage Method
- Alternative methods
  - Formula tables for percentage method withholding for automated payroll systems
  - Wage bracket percentage method tables for automated payroll systems
  - Combined income, social security, and Medicare tax withholding tables
Alternative Methods Continued…:
- Annualized wages
- Average estimated wages
- Cumulative wages
- Part-year employment method
- Continuous Employment method
- Other methods
Wage Bracket Method

- Find the proper table in Circular E for payroll period and employee’s marital status
- Based on number of withholding allowances claimed on Form W-4 and amount of wages find the amount of income tax to withhold
- Will need to adjust if claiming more than 10 allowances and wages can exceed the brackets listed
- Example:
Employee is paid biweekly, has $1250.41 in gross wages and claims Married, 2 on Form W-4

- Using this chart from Publication 15

We would deduct $61 for FIT
Percentage Method

Works for any number of withholding allowances and any amount of wages

Use the following steps:

1. Multiple one withholding allowance for the payroll period by the number of allowances the employee claims (Table 5 is used)
2. Subtract that amount from the employee’s wages
3. Determine the amount to withholding from the appropriate table in Circular E
Table 5. Percentage Method—2016 Amount for One Withholding Allowance

<table>
<thead>
<tr>
<th>Payroll Period</th>
<th>One Withholding Allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly</td>
<td>$ 77.90</td>
</tr>
<tr>
<td>Biweekly</td>
<td>155.80</td>
</tr>
<tr>
<td>Semimonthly</td>
<td>168.80</td>
</tr>
<tr>
<td>Monthly</td>
<td>337.50</td>
</tr>
<tr>
<td>Quarterly</td>
<td>1,012.50</td>
</tr>
<tr>
<td>Semiannually</td>
<td>2,025.00</td>
</tr>
<tr>
<td>Annually</td>
<td>4,050.00</td>
</tr>
<tr>
<td>Daily or miscellaneous (each day of the payroll period)</td>
<td>15.60</td>
</tr>
</tbody>
</table>
Employee is paid biweekly, has $1250.41 in gross wages and claims Married, 2 on Form W-4

We do the following calculations...
### Percentage Method Example

<table>
<thead>
<tr>
<th>Step</th>
<th>Item</th>
<th>Amount</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total wage payment for payroll</td>
<td>$1250.41</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>One allowance for biweekly payroll period</td>
<td>$155.80</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Allowances claimed on Form W-4</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Multiply step 2 by step 3</td>
<td>$311.60</td>
<td>155.80 x 2</td>
</tr>
<tr>
<td>5</td>
<td>Subtract step 4 from gross wages</td>
<td>$938.80</td>
<td>1250.41 – 311.60</td>
</tr>
<tr>
<td>6</td>
<td>Look up requirements for step 5 amount in tables in Pub 15</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Percentage Method Example

We withhold $60.98 for FIT
Alternative Methods for Computer

In Publication 15-A

- Formula tables for percentage method withholding for automated payroll systems
- Wage bracket percentage method tables for automated payroll systems
- Combined income, social security, and Medicare tax withholding tables
# Alternative Methods

<table>
<thead>
<tr>
<th>If the tax required to be withheld under the annual percentage is—</th>
<th>The annual tax withheld under your method may not differ by more than—</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $10.00</td>
<td>$9.99</td>
</tr>
<tr>
<td>$10 or more but under $100</td>
<td>$10 plus 10% of the excess over $10</td>
</tr>
<tr>
<td>$100 or more but under $1,000</td>
<td>$19 plus 3% of the excess over $100</td>
</tr>
<tr>
<td>$1,000 or more</td>
<td>$46 plus 1% of the excess over $1,000</td>
</tr>
</tbody>
</table>
Nonresident Aliens

- Generally subject to withholding on all U.S. sourced income same as a resident alien or U.S. citizen
- May claim exemption under tax treaty using Form 8233
- Students on F, J, M or Q visas may be exempted from withholding or subject to reduced rate of 14%
- Form W-4 must reflect status by writing NRA on line 6
- Special withholding procedure must be used in most cases
Step 1:

Add to the wages paid to the nonresident alien employee for the payroll period the amount shown in the chart on the next slide for the applicable payroll period.

**Amount to Add to Nonresident Alien Employee’s Wages for Calculating Income Tax Withholding Only**

<table>
<thead>
<tr>
<th>Payroll Period</th>
<th>Add Additional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly</td>
<td>$43.30</td>
</tr>
<tr>
<td>Biweekly</td>
<td>86.50</td>
</tr>
<tr>
<td>Semimonthly</td>
<td>93.80</td>
</tr>
<tr>
<td>Monthly</td>
<td>187.50</td>
</tr>
<tr>
<td>Quarterly</td>
<td>562.50</td>
</tr>
<tr>
<td>Semiannually</td>
<td>1,125.00</td>
</tr>
<tr>
<td>Annually</td>
<td>2,250.00</td>
</tr>
<tr>
<td>Daily or Miscellaneous (each day of the payroll period)</td>
<td>8.70</td>
</tr>
</tbody>
</table>

©2016 The Payroll Advisor
Step 2:

Use the amount figured in Step 1 and the number of withholding allowances claimed (generally limited to one allowance) to figure income tax withholding using the tables that are used to figure income tax withholding for all other employees.

Does not apply to FICA or FUTA

Not included on Form W-2

Do not use this procedure on students or business apprentices from India
Example

- An employer using the percentage method of withholding pays wages of $500 for a biweekly payroll period to a married nonresident alien employee
- The nonresident alien has properly completed Form W-4, entering marital status as “single” with one withholding allowance and indicating status as a nonresident alien on line 6 of Form W-4
Example

- The employer determines the wages to be used in the withholding tables by adding to the $500 amount of wages paid the amount of $86.50 from the chart- $586.50 total
- Using the percentage method chart minus the allowance for one withholding allowance on a biweekly payroll of $155.80
- $586.50 – $155.80 = $430.70
Percentage Method Tax

Equals:

- $430.70 - $87 = $343.70
- $343.70 x 10% = $34.70 is the amount of tax withheld.

TABLE 2—BIWEEKLY

(a) SINGLE person (including head of household)—
If the amount of wages (after subtracting withholding allowances) is:

<table>
<thead>
<tr>
<th>Over $87</th>
<th>But not over $443</th>
<th>$0.00 plus 10% (after subtracting withholding allowances) is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$87</td>
<td>—$443</td>
<td>$0.00 plus 10%</td>
</tr>
<tr>
<td>$443</td>
<td>—$1,535</td>
<td>$35.60 plus 15%</td>
</tr>
<tr>
<td>$1,535</td>
<td>—$3,592</td>
<td>$199.40 plus 25%</td>
</tr>
<tr>
<td>$3,592</td>
<td>—$7,400</td>
<td>$713.65 plus 28%</td>
</tr>
<tr>
<td>$7,400</td>
<td>—$15,985</td>
<td>$1,779.89 plus 33%</td>
</tr>
<tr>
<td>$15,985</td>
<td>—$16,050</td>
<td>$4,612.94 plus 35%</td>
</tr>
<tr>
<td>$16,050</td>
<td></td>
<td>$4,635.69 plus 39.6%</td>
</tr>
</tbody>
</table>
Supplemental Wages

- Wages paid in addition to current dollars times current hours—not regular wages
- Includes bonuses, commissions, overtime pay, accumulated leave payouts, severance pay prizes and awards, retro pay increases
Two Acceptable Methods

- **Aggregate Method:** Add the wages to regular wages and use the Form W-4 to compute the tax withholding amount

- **Alternate Method:** use the supplemental rate for the wages as required instead of Form W-4 to compute the tax withholding amount

- Generally employer’s choice
Supplemental Rates

- 25% if supplemental wages paid to employee during calendar year are less than or equal to $1 million
- 39.6% if supplemental wage payment together with other supplemental wage payments during calendar year exceeds $1 million the excess is subject to withholding at this rate
Example 1—Aggregate Same Time Payments

- Fred Smith is paid base salary on the first of each month
- Claims Single, One on Form W-4
- January paid $1,000--$50 is withheld for FIT
- In February paid $1,000 plus commission of $2,000
- February payment is taxed on total of $3,000 and $336 is withheld for FIT
Example 2—Aggregate Pay at Separate Times

- Joan Russell is paid base salary on 1st of each month
- Claims Singe, One allowance on Form W-4
- May 1 pay is $2,000—withhold $186 for FIT
- May 14 paid bonus of $1,000
  - Add bonus to $1,000 paid on May 1 for a total of $3,000
  - Determine withholding to be $336 on the $3,000
  - Subtract $186 withheld on May 1 ($336 – 186 = 150)
  - Withhold $150 from bonus of $2,000
Example 3—Aggregate Pay at Separate Times

- Joan on May 28 paid second bonus of $2,000
- Add May 1 and May 14 bonuses together for total of $5,000
- Determine withholding on $5,000 to be $771
- Subtract previous withheld amounts of $186 and $150 ($771 – 186 – 150 = 435)
- Withhold $435 from May 28\textsuperscript{th} bonus payment
Example 4—Alternate Pay

- Joan Russell is paid base salary on 1\textsuperscript{st} of each month
- Claims Singe, One allowance on Form W-4
- May 1 pay is $2,000—withdraw $186 for FIT
- May 14 paid bonus of $1,000
  - Multiply by 25%
  - Withhold $250 for FIT
Vacation Pay

- Subject to withholding as regular wage payment
- May be treated as supplemental if paid in addition to regular wages
- If vacation pay is for a time longer than usual payroll period may spread it over the pay periods for which you pay it
FICA Taxes

- Federal Insurance Contributions Act
- System of old-age, survivors, and disability insurance and hospital insurance
- Old-age, Survivors, and Disability Insurance (OASDI) —social security
- Hospital insurance is Medicare and Additional Medicare Tax
FICA Taxes

OASDI or Social Security

- Established in the 1930’s
- Current rate is 6.2%
- 2016 Wage base is $118,500
- Maximum to withhold for 2016 is $7,347.00
- Employer matches dollar for dollar

Medicare & Additional Medicare

Medicare:

- Established 1960’s
- Current rate is 1.45%
- No annual wage base
- Employer matches dollar for dollar

Additional Medicare Tax:

- Established 2013
- Current rate is 0.9%
- For wages in excess of $200,000
- No employer matching

©2015 The Payroll Advisor
Totalization Agreements

- Two main purposes
  - Eliminate dual social security taxation
  - Fill in gaps for protection benefits
- Agreements with 25 separate countries
- Need to check with agreement for particulars
- Info on Social Security Administration website
  http://www.socialsecurity.gov/international/totalization_agreements.html
Nonresident Aliens

- Services performed in U.S. that otherwise are covered employment under FICA are not excluded because the employee is a nonresident alien.
- However, “students” under F, J, M and Q visas are excepted from the definition of employment for FICA if in connection with the purpose for which the student is admitted to this country.
Common Paymaster

- A group of related employers may pay through a common paymaster and be treated as a single employer for FICA
- Employee is employed concurrently by two or more related corporation and is compensated by the common paymaster
Successor Employer

- May take credit for wages paid by previous employer
- Rule applies where there is a predecessor-successor relationship and for the wages paid during the calendar year of the acquisition
- Must have been an acquisition of a trade or business and the employee must be employee of that business
FUTA

- Federal Unemployment Tax Act
- Provides payments of unemployment compensation to workers who have lost their jobs
- SUI program is funded through this Act
- Tax exempt organizations (501(c)(3) and state and local governments generally are exempt and are not subject to FUTA
For employers (other than farming or household) the test to determine if subject to FUTA:

- Paid wages of $1,500 or more in any calendar quarter of 2015 or 2016, or
- Had one or more employees for at least some part of the day in any 20 or more different weeks in 2015 or 20 or more different weeks in 2016
2016 Rate and Wage base

- Tax rate is 6.0% of the first $7,000 of taxable wages
- Generally receive a credit against FUTA tax for amounts paid into state fund of up to 5.4% of FUTA taxable wages
- If permitted credit net rate is 0.6%
- Paid on time, all same wages subject to tax and not in a credit reduction state
Credit Reduction

- States are announced each November for that calendar year
- Additional amount due at time of paying FUTA deposit or at time of filing Form 940
- Must complete Schedule A if multistate employer
Calculating and Depositing FUTA

- Due quarterly in most cases
- Deposit each quarter by the last day of the month following the end of the quarter if over $500
- If $500 or less may deposit or may carry forward to next quarter
- Take the credit for your state for the first three quarters by using the 0.6% credit reduction rate
- 4th quarter where credit reduction is paid in addition to normal FUTA deposits
- Reconciled and reported annually on Form 940
Example

- You have 5 employees A, B, C, D & E
- You paid the following for the first quarter in 2016:
  - A: $3,000; B: $4,000; C: $2,000; D: $6,000
  - Total of $15,000 in taxable wages

\$15,000 \times 0.6\% = \$90 \text{ liability for first quarter}

You may deposit or hold until the next quarter
Successor Employer for FUTA

- May be able to count the wages the previous employer paid to employees when acquiring a business
- Must acquire substantially all the property used in a trade or business of another employer and immediately employee the individual who was employed immediately prior to the acquisition
A group of related employers may pay through a common paymaster and be treated as a single employer for FUTA.

Employee is employed concurrently by two or more related corporation and is compensated by the common paymaster.
Deposit Rules

- FIT and FICA are deposited together based on the schedule applied to the employer.
- Two types of depositors—Monthly or semiweekly.
- Type is determined at the beginning of the calendar year based on the employer’s total taxes reported on Forms 941 for the last lookback period.
- Lookback period is July 1 through June 30 of the previous year.
- Form 944 filer use calendar year.

©2016 The Payroll Advisor
Lookback Period for 2016

For 2016 this would be July 1, 2014 through June 30, 2015.

Table 1. Lookback Period for Calendar Year 2016


- If more than $50,000 is reported the employer is a semiweekly depositor if less than $50,000 a monthly depositor.
Lookback Period

- Use only the original Forms 941 to determine total deposits do not use Form 941-X

- Example: Employer reported a tax liability of $48,000 for the lookback period for 2016. In January 2016 an error is discovered for the tax reported for 2nd quarter of 2015 of $10,000. This is corrected by filing a Form 941-X. Employer is still a monthly depositor for 2016
Deposit federal income tax withheld, the employee portion of the FICA taxes and the matching employer portion of the FICA taxes by the 15th of the following month.

Example: Taxes withheld in April would be due by May 15th.
Semiweekly Depositor

- Deposit federal income tax withheld, the employee portion of the FICA taxes and the matching employer portion of the FICA taxes on either Wednesday or Friday
- Payments made on Wednesday, Thursday and/or Friday are due by the following Wednesday
- Payments made on Saturday, Sunday, Monday and/or Tuesday are due by the following Friday

<table>
<thead>
<tr>
<th>Table 2. Semiweekly Deposit Schedule</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IF</strong> the payday falls on a…</td>
</tr>
<tr>
<td>Wednesday, Thursday, and/or Friday</td>
</tr>
<tr>
<td>Saturday, Sunday, Monday, and/or Tuesday</td>
</tr>
</tbody>
</table>

©2016 The Payroll Advisor
Semiweekly Depositor

- If semiweekly deposit period spans 2 quarters then make separate deposits for each quarter
- Example: Pay day is on Thursday, March 31, 2016 and another pay day is on Friday, April 1, 2016
- Even though both are in the same semiweekly deposit period two deposits are needed
- Both would be due on Wednesday, April 6, 2016
$100,000 Rule

- Accumulate $100,000 or more in taxes on any day during a monthly or semiweekly deposit period must deposit the tax by the next business day
- Does not matter if semiweekly or monthly depositor
- Do not accumulate for more than one deposit period
$100,000 Rule

- Once accumulated stop accumulating and pay the tax and then begin accumulating again.
- Example: company is a semiweekly depositor and accumulates $115,000 of taxes on Monday. This is deposited on Tuesday. On Tuesday, the company accumulates additional taxes of $30,000. This is deposited on Friday.
- If monthly depositor and accumulate $100,000 or more becomes semiweekly depositor for that calendar year.
Business Days and Holidays

- Deposit on business days only is required
- Business days do not include Saturdays, Sundays or legal holidays—legal holidays are those for the District of Columbia
- Due the next business day if deposit falls on one of these days
- Legal holidays for 2016:
  - 1/1; 1/18; 2/15; 4/15; 5/30; 7/4; 9/5; 10/10; 11/11; 11/24 and 12/26
How to Deposit

- Electronic Funds Transfer only is accepted for federal tax deposits

- Use EFTPS or any other authorized method
Accuracy of Deposits Rule

- Are permitted to make up shortfalls if it does not exceed $100 or 2% of the amount of taxes due
- Monthly depositor: deposit the shortfall with the return by the due date of the return for the return period in which the shortfall occurs
- Semiweekly depositor: Deposit by the earlier of the first Wednesday or Friday (whichever comes first) on or after the 15th of the month following the month in which the shortfall occurred
Examples for Semiweekly Depositor

- Example 1: Has a shortfall during June 2016
  - Makeup date is July 15, 2016 (Friday)

- Example 2: Shortfall occurs on the required April 1, 2016 (Friday) deposit due date for the March 29, 2016 (Tuesday) payday

- Return due date for March 29th would be is May 2, 2016

- May 2nd would come before the May 18, 2016 (Wednesday) shortfall due date so the deposit is due on May 2, 2016
FIT and FICA are reported and reconciled on Form 941 or Form 944 depending on the size of the employer.

Form 944 filers are notified by the IRS if qualified.
Semiweekly depositors must also file Form 941 Schedule B with the Form 941.
Form 941 is due by the end of the month following the end of each quarter.
Form 944 is due annually by January 31st.
### Penalties

Failure to deposit penalties are as follows:

<table>
<thead>
<tr>
<th>Penalty</th>
<th>If Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>2%</td>
<td>Deposits made 1 to 5 days late</td>
</tr>
<tr>
<td>5%</td>
<td>Deposits made 6 to 15 days late</td>
</tr>
<tr>
<td>10%</td>
<td>Deposits made 16 or more days late or within 10 days of first IRS Notice</td>
</tr>
<tr>
<td>10%</td>
<td>Amount should have been deposited but was paid directly to IRS</td>
</tr>
<tr>
<td>15%</td>
<td>Amounts still unpaid more than 10 days after the first IRS notice</td>
</tr>
</tbody>
</table>
May Assess Averaged Failure to Deposit Penalties to:

**Monthly Depositors**

If Form 941, line 14 is not completed correctly when tax liability equaled or exceeded $2,500

Penalties will range from 2% to 10%

**Semiweekly Depositors if:**

Tax liability equaled $2,500:
- line 14 is completed instead of Schedule B or
- no Schedule B is properly attached to the Form 941 or
- Schedule B is completed incorrectly
Are There Any Questions?
How Can Ascentis Help Me?

- Automate tax calculations
- Income tax calculations for up to 99 withholding allowances (dependent on the state)
- Non resident alien tax calculations
- Supplemental wage withholding calculations, both paid separately or paid combined with regular wages
- Ability to enter the number of tax weeks used for tax calculations on certain checks
- Employees on a visa
- Successor wage records
- Futa credit calculations
To earn RCH credit you must

Stay on the webinar, online for the full 60 minutes

Be watching using your unique URL

Certificates delivered by email, to registered email, by September 26th
On-Demand Webinars

Watch from anywhere, at anytime, at no cost to you!
Download Slides? Watch again?

Elegant Human Capital Management Software Solutions for Businesses Focused on Efficiency and Accuracy

Feature Rich
Integrated Modules
Ultimate Flexibility

Powerful Integrated HCM Solutions for the Mid-Market

©2016 The Payroll Advisor
Sharing the Education