



PLATINUM GROUP

PAYROLL 101: A BEGINNER'S GUIDE TO PAYROLL TAXES & FORMS

For many owners, taxes can be confusing. Sure, you know how to grow and market your business from day to day, but do you know which forms have to be submitted and when? Whether you handle your taxes yourself, employ an in-house accountant, or outsource the whole deal, you'll be in better control if you familiarize yourself with the basics.

1 ○

FORM W-4

Upon hiring each and every new employee, you must have them fill out a W-4, or *Employee's Withholding Allowance Certificate*. This will help you know exactly how much income tax to withhold from an employee's wages. The amount is based on his or her filing status and withholding allowances, and remains in effect until your employee provides a new one. However, it's up to the employee to decide if and when to do this.

2 ○

SOCIAL SECURITY & MEDICARE (FICA)

The Federal Insurance Contributions Act requires employers to withhold social security, Medicare, and a Medicare surtax (only applicable to employees earning over \$200,000) from each employee paycheck *and* pay their employer portion. The rates for the employer portion are: 6.2% (social security) and 1.45% (Medicare). Social security taxes help fund the retirement program with the same name, and Medicare taxes fund the national social insurance program with the same name, that provides healthcare for over 55 million Americans.

3 ○

DEPOSITING FEDERAL TAXES

Companies are required to deposit federal income taxes withheld, social security taxes and Medicare taxes through the U.S. Department of Treasury's Electronic Federal Tax Payment System. (Checks and envelopes are now relics of the 20th century!) They must deposit these taxes on a monthly or semi-weekly basis, depending on the total tax liability you reported on Form 941 during a lookback period (beginning July 1 and ending June 30 of the following year). It is *not* determined by how often you pay your employees. Form 941 is an Employer's Quarterly Federal Tax Return and is used to report withholding taxes. To ultimately deposit, you will use EFT, or an electronic deposit. It's required by the IRS.

4 ○

DEPOSITING FUTA TAXES

Companies must make a deposit of unemployment insurance as required by the Federal Unemployment Tax Act (FUTA). They are also required to file Form 940, Employer's Annual Federal Unemployment Tax Return. This transaction takes place in the quarter during which the total tax due exceeds \$500. The FUTA deposit is due by the end of the month following the end of the quarter. Because FUTA tax is not withheld from your employees' wages, all companies have to do is file Form 940. *Only* pay your employer taxes. Do *not* collect on your employees' wages. Some lucky states must collect State Unemployment Tax (SUTA) as well. Each state determines its own rate, and the amount goes to funding the state unemployment insurance system.

Depositing federal and state taxes is integral. If you're late to deposit federal taxes, the IRS imposes a deposit penalty that adds up as time passes. For example, a 2% penalty rate is imposed on deposits made one to five days late, while a 10% rate is given to those who are 16 or more days late.

5 ○

REPORTING FEDERAL TAXES

Generally, companies must file Form 941, Employer's Quarterly Federal Tax Return, each quarter to report employees' federal income tax withheld and Social Security, Medicare, sick pay, and unemployment benefits. This form is also used for employers to pay their portion of social security and Medicare. However, there are a few instances in which companies might use a different form. For example, companies reporting agricultural wages will use Form 943, Employer's Annual Federal Tax Return for Agricultural Employees. There are other variations: Businesses may receive a written notification to file annually using Form 944, rather than quarterly with Form 941. And, some corporations will need to file Form 945, Annual Return of Withheld Federal Income Tax.

6 ○

FORM W-2

Anyone who's ever been employed is likely familiar with W-2 forms. Companies send them out, and generally begin distributing in January. Every employer who pays remuneration for services performed by a true employee (not a contractor) must file a W-2 for each employee. Copy A of the W-2 goes with Form W-3 to the Social Security Administration, while Copy 1 goes to the employee's state or local tax department. These forms show the amount of taxes withheld from an employee's paycheck for the entire year.

FORM 1099

The Form 1099-MISC is another common form, which serves as an equivalent to the Form W-2 for independent contractors, freelancers, and any other seasonal or non-employee workers. Companies that paid a non-employee \$600 or more during a given year are required to provide that person with a completed 1099-MISC by January 31 of the year following payment. They must then send a copy to the IRS by Feb. 28 or, by March 31, if the company uses the IRS FIRE system to file electronically.

To fully grasp all of your depositing and reporting responsibilities as an employer, business owners can start by skimming **Publication 15** (Circular E), Employer's Tax Guide.

To learn more about classifying employees correctly, visit [symmetry.com/resources](https://www.symmetry.com/resources).