**Chapter Nine**

**Withholding, Estimated Payments and Payroll Taxes**

**Learning Objective 9.1 Withholding Methods**

Employers are required to withhold taxes from the amounts paid to employees as wages.

* Employees complete a Form W-4 t
  + It establishes filing status and number of withholding allowances
  + May have additional amounts withheld from their wages
  + Single employees with only one job may claim one special withholding allowance
  + Married employees may also claim the special withholding allowance if only one job and spouse does not work
    - Or wages earned from a second job (or the spouse’s job), are $1,500 or less
* Federal withholding is computed based on gross wages
* Most accounting software has the withholding tables in the payroll programs (IRS Publication 15)

Withholding taxes are required on pension and other deferred income payments.

* Based on the taxpayer’s withholding certificate as if the payments were additional wage.
* Withholding is a flat 10%
  + Except for certain distributions on qualified retirement plans - 20% withholding

Tips are also subject to taxation

* Employers are not required to withhold income, Social Security, or Medicare taxes on *allocated tips*, but are required to collect those taxes on tips reported by employees.
* Tips are allocated if the employee reports tips less than 8% of sales

Individuals may be subject to backup withholding on payments such as interest and dividends

* The payor must withhold 28%

**Learning Objective 9.2 Estimated Payments**

Self-employed taxpayers must make quarterly estimated tax payments since they are not subject to withholding.

* Due April 15, June 15, and September 15 and January 15 of the following year
* Any taxpayer who has estimated tax liability of $1,000 or more (less withholdings) must make quarterly estimated payments
* The requirements for the minimum annual payment are as follows:
  + 90% of the tax shown on the current year’s return, or
  + 100% of the tax shown on the preceding year’s return, or
  + 90% of the tax determined by placing taxable income, alternative minimum taxable income, and adjusted self-employment income on an annualized basis

Individuals with adjusted gross income in excess of $150,000 for the previous year must pay 110% instead of 100%

* Penalized if underpay estimated tax

**Learning Objective 9.3 The FICA Tax**

The Federal Insurance Contributions Act (FICA) imposed Social Security taxes.

* Employees and employers pay the same FICA tax rates.
* Social Security (Old Age, Survivors, and Disability Insurance) - 6.2% on the first $118,500 of wages
* Medicare (Hospital Insurance) - 1.45% on all wages
  + The Affordable Care Act imposes an additional Medicare surtax of 0.9% on high-income taxpayers
  + Earned income > $200,000 (, HOH, SS), $250,000 (MFJ) and $125,000 (MFS)

**Learning Objective 9.4 Federal Tax Deposit System**

Employers must make deposits for the withholding taxes

* Deposit status is determined by using a lookback period
  + If the FICA and withholdings are $50,000 or less, employers are considered monthly depositors – deposit by 15th of following months
  + If the FICA and withholdings are greater than $50,000, employers are semiweekly depositors – pay W-F, deposit by next Wednesday, if pay Saturday – Tuesday, deposit by next Friday
* Tax payments must be remitted through the EFTPS (Electronic Federal Tax Payment System).
* Employers must file a *Form 941* quarterly to report FIT and FICA
  + Qualifying small employers may file a *Form 944* annually if duly notified by the IRS

**Learning Objective 9.5 Employer Reporting Requirements**

*Form W-2* is used to report wages, tips and other compensation paid to employees

* Must send to employees by 1/ 31 of the following year
* *Form W-3* must be filed with the Social Security Administration by 2/28 of the year following the calendar year of payment

Gambling winnings are reported on a *Form W-2G* with Form W-3G transmittal

*Form 1099* is used to report the earnings of nonemployees.

* *Form 1096* must be transmitted to the appropriate IRS Service Center by 2/28 of the year following the calendar year of payment

**Learning Objective 9.6 Self-Employment Tax**

Self-employed taxpayers pay self-employment tax instead of FICA taxes

* Individual pays the entire tax
* Like the FICA taxes, self-employment taxes consist of a Social Security tax (12.4%) (OASDI) and a Medicare part (2.9%)
  + Medicare is used for self-employed taxpayers - 0.9% applies to high-income taxpayers
* Individuals with net earnings from self-employment of $400 or more are subject to self-employment tax

**Learning Objective 9.7 The FUTA Tax**

Employers are required to pay gross unemployment tax equal to 6.0% of an employee’s wages up to $7,000, but a credit is allowed for state unemployment taxes up to 5.4%

* Therefore, ***net FUTA = .6%*** if the maximum amount of state tax is paid
* Employers in states that have not repaid TITLE XII money borrowed from the federal government for unemployment benefits will have a higher FUTA ta.

Employers file a *Form 940* once a year and remit payment when the FUTA tax for the quarter plus any amount not yet deposited for prior quarter(s) exceed $500

**Learning Objective 9.8 The Nanny Tax**

If payments to household employees exceed $2,000, then the wages are subject to FICA and Medicare taxes

* Examples of household employees include babysitters, caretakers, cooks, drivers, gardeners, housekeepers and maids
* FUTA tax must be paid if more than $1,000 paid to household employees during any calendar quarter
* The taxpayer remits the withholdings with their Form 1040
  + They must also issue W-2s to all the employee earnings more than $2,000
  + See IRS Publication 926 for more details on the nanny tax

**LO 9.9 Computing the 0.9% Medicare Surtax for High-Income Taxpayers**

The Affordable Care Act (ACA) imposes a 0.9% Medicare surtax on earned income such as salaries, wages and self-employment

* Applies to earned income > $200,000 (S, HOH, SS), $250,000 (MFJ) and $125,000 (MFS)
* An employer withholds the 0.9% surtax when a taxpayer’s salary reaches $200,000
* Married couples must *combine their earned income and compare the total with the $250,000 threshold* to see if they owe the .9% surtax
* Employers are not required to share in paying the surtax

*Self-employed taxpayers and .9% Medicare Surtax*

* Self-employed taxpayers generally report earnings on Schedules C, F or E (Royalty income, partnership income passed through on Schedule K-1)
* Medicare surtax is reported on Form 1040.
* Several additional rules apply to high-income self-employed taxpayers:
* 0.9% surtax is not included in the calculation of deductible self-employment tax to arrive at AGI
* A loss incurred by one spouse can offset earned income by the other self-employed spouse for the calculation of the 0.9% surtax