

Payroll Taxation

The I-9 Form and W-4 form

When you hire a new employee you are required to have them complete a Department of Homeland Security I-9 form. Go to www.uscis.gov. Click on forms, then I-9. The employee marks if they are a citizen, a noncitizen national, an alien resident, or an alien authorized to work. The employer then needs to complete a section of I-9 showing the documents they reviewed verifying both identity and employment authorization. The employer does not file this form. It is retained in the employee file and must be presented if required by the government.

When you hire a new employee you are required to have them prepare a W-4 form. Go to www.irs.gov. Click on Forms and Pubs, then list of current forms, then type W-4. This form provides you the employee name, address, social security number, married or single status, and the number of personal exemptions the person claims for tax withholding. You may also be required to file a copy of this form or a new hire report with a state agency. You need to see the employees Social Security Card to verify W-4 information. You can verify the card information online with the Social

Security Administration. It is important to have an employee folder maintaining employee personal data, tax data, and work history. It is the employer responsibility to verify the employee status as an individual authorized to work in the United States. It is the employer responsibility to maintain the support documents and provide them if requested.

Gross to Net Pay

You must keep a time record on every employee in support of the gross pay computations. This is so that in the event of an employment audit you can justify that you meet both minimum pay and overtime laws. Employees are either salaried or hourly. Using time records you determine the employees gross pay for the period. The next step is to determine the employee federal withholding tax. You do this by using a government table. There are tables for weekly, biweekly, and monthly payrolls. Each of these shows tables for married and single taxpayers. You find the correct table (weekly/married), then the gross pay for this week on the schedule, and finally the column showing the number of deductions claimed. This will then tell you what the amount is to withhold for federal income tax. Next you multiply the gross pay by 6.2%. This gives you the FICA tax to withhold. This amount ends each year based on that years FICA maximum. Next you multiply the gross by 1.45%. This gives you the Medicare to withhold. Next come state income taxes. The state withholding in most instances follows tables similar to federal withholding. Most states have unemployment and disability deductions. These are usually a percentage of gross with annual limits. There may be other deductions for health insurance, union dues, etc. After these deductions are subtracted from gross pay, the net payroll check is determined. Some items have special tax handling. For example, a 401K deduction is subject to FICA/Medicare but not federal withholding. You need to subtract the

401K deduction from the gross pay and then use the federal withholding tables. The IRS bible for payroll taxation is Publication 15 Circular E, Employers Tax Guide. Go to www.irs.gov. Click on Forms and Pubs, then list of current forms. Type in find Publ 15.

If you use payroll software, you will enter the employee W-4 information and the software will compute the gross to net checks, track payroll taxes due, make electronic deposits, and file forms electronically.

Payroll Tax Deposits

Most small businesses are required to make payroll tax deposits each month. You determine the tax due and make an electronic payment. You are required to make all federal tax payments electronically. For electronic filing registration and information go to www.eftps.gov. A similar procedure usually exists with your state tax deposits.

You need to determine the amount of the federal and state tax deposits. To do this you need a means either manually or computerized to add the gross to net of all the checks you wrote during the month. This is a monthly payroll journal. In addition, each individual check needs to be posted to each employee's individual cumulative earnings record. From these we can determine the total tax deductions for the month. The federal deposit is the sum of the federal withholding, FICA tax withheld then doubled, and Medicare tax withheld then doubled. The state procedures follow similar rules.

Quarterly Payroll Tax Returns

At the end of every calendar quarter you will need to report all your payroll activity for the period by completing a federal form 941. This form is due by the end of the month following the close of the calendar quarter. Go to www.irs.gov. Click on Forms and Pubs, then List of current forms, then type 941 in find. This form reflects all the information about your quarterly liability from your payroll journals and compares it to the amount of your monthly deposits. An additional amount due or an overpayment may result. The states also have similar quarterly tax returns. The 941 can be filed electronically or mailed. For most small businesses a quarterly federal unemployment tax deposit is required for the gross wages paid during the quarter. You make this deposit in the same manner as your regular monthly deposits except you mark it form 940. This tax is not withheld from employee pay.

Annual Payroll Tax Returns

At the end of the year you need to file your annual federal unemployment return. This is done on form 940. Go to www.irs.gov. Click on Forms and Pubs, then List of current forms, then type 940 in find. This form has you use your payroll records to determine the taxable unemployment wages and, then, compare it to what you have deposited to determine if you owe taxes or a refund is due. Your state will also have an unemployment form requiring preparation and filing

At the end of the year you need to let your employees know what their gross pay, federal withholding, FICA withholding, Medicare withholding, state withholding, and state unemployment withholding were cumulative for the calendar year. The employee needs this information to prepare their personal income tax return. This is done on a W2 form and sent to the government with a W3 transmittal form. Go to www.irs.gov.

Click on Forms and Pubs, then List of current forms, then type W2 in find, then W3.
The states have similar procedures.

For more resources visit www.rjclark.com.