

# 林麗淑會計師聯合專業公司

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### Employment Taxes

If you plan to start a business with employees or you are currently operating a business with employees, besides income taxes and sales tax, you need to know your employment tax responsibilities as an employer.

As an employer, you must withhold several federal, state and local taxes (not applicable in Illinois) from your employees' wages. And, it is the employer's responsibility to deposit and report the withholdings to the appropriate agency. Employment taxes include:

- Federal income tax withholding
- State income tax withholding
- Social Security and Medicare taxes (FICA)
- Federal unemployment tax (FUTA)
- State unemployment tax (SUTA)

#### **Federal and State Income Taxes**

Employers generally must withhold federal and state income tax from employees' wages. Employers should use employee's information from Form W-4, such as marital status, number of exemptions/allowances, pay frequency (monthly, bi-weekly or semi-monthly), etc., in conjunction with Circular E (for federal income tax) or Booklet IL-700-T (for Illinois state income tax) to figure how much to withhold from each wage payment.

#### **Social Security and Medicare Taxes (FICA)**

Social Security and Medicare taxes pay for benefits that workers and families receive under the Federal Insurance Contributions Act (FICA). Social Security tax pays for benefits under the old-age, survivors, and disability insurance part of FICA. The maximum amount of wages subject to the social security tax for 2011 is \$106,800. Medicare tax pays for benefits under the hospital insurance part of FICA. There is no limit on the amount of wages subject to the Medicare tax.

Employers must withhold 6.2% of Social Security tax and 1.45% of Medicare tax (a total of 7.65% FICA tax) from employees' wages and pay a matching amount themselves, up to the maximum wages of \$106,800. For wages of more than \$106,800, employers only withhold and match 1.45% of Medicare tax.

## **Federal and State Unemployment Tax (FUTA & SUTA)**

The Federal Unemployment Tax Act (FUTA) and State Unemployment Tax Act (SUTA) pay unemployment compensation to workers who lose their jobs. Employers pay FUTA and SUTA tax from their own funds. Employees do not pay this tax or have it withheld from their pay.

The FUTA tax is figured on the first \$7,000 in wages paid to each employee during the year. The current FUTA tax rate is 6.2%. Employers can take a tax credit against the FUTA tax for amounts paid into state unemployment funds. This credit cannot be more than 5.4% of taxable FUTA wages but can be taken in full if the SUTA tax is paid by the time to file form 940 FUTA return. If employers are entitled to the maximum 5.4% credit, the FUTA tax rate, after this credit is 0.8%.

The SUTA tax for state of Illinois is figured on the first \$12,740 in wages paid to each employee during the year. As a new business, employer will be assigned an entry-level rate of 3.80% for the first two or three years. After that employer will be assigned a variable rate, possibly as low as 0.70%, based on the company's own experience, i.e. benefit charges (for benefits paid to former employees), taxable wages, and the experience of the entire state.

In short, as a new business, employer's employment tax rate is almost equivalent to a whopping of 12.25%. In other words, for every \$100 in wages, employer has to shell out \$12.25 for employment taxes.

## **Depositing Taxes**

In general, employers must deposit employment taxes timely and in accordance with the rules and guidelines set-forth by federal, state and or local agencies.

### *Federal income tax and FICA tax*

1. Employers with prior payrolls and taxes of \$2,500 or less per quarter, they are not required to deposit electronically using the Electronic Federal Tax Payment System (EFTPS) or at an authorized financial institution using coupon 8109. They can mail the payment with the quarterly report to the IRS.
2. Employers with prior payrolls and taxes of \$2,500 or more per quarter must determine if they make either Monthly or Semiweekly Schedule Deposits. Deposits can only be made by electronically using the Electronic Federal Tax Payment System (EFTPS) or at an authorized financial institution using coupon 8109.

This determination is based on a four-quarter Lookback Period.

- a. Identify the Lookback Period.

| Lookback Period for Calendar Year 2011 |                               |                               |                               |                                 |
|----------------------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------------------|
| 2009                                   |                               | 2010                          |                               | 2011                            |
| Jul 1 - Sep 30<br>3rd Quarter          | Oct 1 - Dec 31<br>4th Quarter | Jan 1 - Mar 31<br>1st Quarter | Apr 1 - Jun 30<br>2nd Quarter | Calendar Year<br>Jan 1 - Dec 31 |

- b. Add the total taxes reported during the Lookback Period.
- c. Determine the deposit schedule.

|                                                          |                               |
|----------------------------------------------------------|-------------------------------|
| If the total taxes reported in the Lookback Period were: | Then the employer is a:       |
| \$50,000 or less                                         | Monthly Schedule Depositor    |
| More than \$50,000                                       | Semiweekly Schedule Depositor |

- *Monthly Schedule Depositors*
    - o Deposit each month's taxes by the 15th day of the following month (for example, taxes from paydays during July are deposited by August 15).
    - o As a new business, employer is a Monthly Schedule Depositor for the first calendar year of the business unless being notified of any exception.
  - *Semiweekly Schedule Depositors*
    - o For wages paid Saturday, Sunday, Monday, or Tuesday, deposit by the following Friday.
    - o For wages paid Wednesday, Thursday, or Friday, deposit by the following Wednesday.
3. If employer accumulates a tax liability of \$100,000 or more on any day during a deposit period, the employer must deposit the tax by the next banking day, whether they are a monthly or semiweekly schedule depositor.
  4. Employers must make electronic deposits using the Electronic Federal Tax Payment System (EFTPS) in 2011 if:
    - Total deposits of employment taxes in 2010 were more than \$200,000 or
    - Employers were required to use EFTPS in 2010 or any prior year.

#### *State income tax (for Illinois)*

1. State income tax payment and return schedule are determined by the amount of tax withheld during the "Lookback" period, which is the one –year period ending on June 30 of the immediately preceding calendar year.
  - a. Identify the Lookback Period.

| Lookback Period for Calendar Year 2011 |                               |                               |                               |                                 |
|----------------------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------------------|
| 2009                                   |                               | 2010                          |                               | 2011                            |
| Jul 1 - Sep 30<br>3rd Quarter          | Oct 1 - Dec 31<br>4th Quarter | Jan 1 - Mar 31<br>1st Quarter | Apr 1 - Jun 30<br>2nd Quarter | Calendar Year<br>Jan 1 - Dec 31 |

- b. Add the total taxes reported during the Lookback Period.
- c. Determine the deposit schedule.

|                                                          |                               |
|----------------------------------------------------------|-------------------------------|
| If the total taxes reported in the Lookback Period were: | Then the employer is a:       |
| \$1,000 or less                                          | Annual Schedule Depositor     |
| More than \$1,000 but no more than \$12,000              | Monthly Schedule Depositor    |
| \$12,000 or more                                         | Semiweekly Schedule Depositor |

- *Annual Schedule Depositors*
    - o Deposit and report taxes annually.
  - *Monthly Schedule Depositors*
    - o Deposit each month's taxes by the 15th day of the following month (for example, taxes from paydays during July are deposited by August 15.
    - o As a new business, employer is a Monthly Schedule Depositor for the first calendar year of the business unless being notified of any exception.
  - *Semiweekly Schedule Depositors*
    - o For wages paid Saturday, Sunday, Monday, or Tuesday, deposit by the following Friday.
    - o For wages paid Wednesday, Thursday, or Friday, deposit by the following Wednesday.
2. Employers who are Semiweekly Schedule Depositors for federal income tax withheld and the FICA tax, required to make payment as the same schedule to the Illinois Department of Revenue.

#### *SUTA (for Illinois)*

Employers must deposit electronically using Illinois TaxNet or mail payment with the quarterly report to the Illinois Department of Employment Security.

#### *FUTA*

Employers with a FUTA tax liability of more than \$500 in any quarter, or an accumulative FUTA tax liability of more than \$500, they must make the payment to the IRS by depositing electronically using the Electronic Federal Tax Payment System (EFTPS) or at an authorized financial institution using coupon 8109 by the 15th day of the following month.

### **Employment Tax Forms**

1. Form 941: Employer's Quarterly Federal Tax Return – for federal income tax and FICA tax. It is due on April 30, July 31, October 31, and January 31 of next year.
2. Form IL-941: Illinois Quarterly Withholding Income Tax Return – for Illinois state income tax. It is due on April 30, July 31, October 31, and January 31 of next year.
3. Form UI-3/40: Illinois Employer's Contribution and Wage Report – for Illinois SUTA tax. It is due on April 30, July 31, October 31, and January 31 of next year.
4. Form 940: Employer's Annual Federal Unemployment Tax Return – for FUTA tax. It is due annually on January 31 of next year.

This article briefly discusses about the employment taxes. It should not be construed as all-inclusive; other steps may be appropriate for specific type of business. It is always to the employer's best interest to seek advices from tax professionals, IRS and or the appropriate state agency.

Excerpt from IRS and IL Department of Revenue website