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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 is \$168,600 for 2024 or \$176,100 for 2025. 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.

Effective on January 1, 2013, employers must withhold an additional 0.9% of Additional Medicare Tax from wages they pay to an individual in excess of \$200,000 in a calendar year.

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%. 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 0.6%.

The SUTA tax for state of Illinois is figured on the first \$13,909 (for 2025) in wages paid to each employee during the year. As a new business, employer will be assigned an entry-level rate of 3.65% (for 2025) for the first two or three years. After that employer will be assigned a variable rate, possibly as low as 0.75%, 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 set up in 2025, employer's employment tax rate is almost equivalent to a whopping of 12.2%. In other words, for every \$100 in wages, employer has to shell out \$12.20 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, are not required to deposit electronically using the Electronic Federal Tax Payment System (EFTPS). 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).

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

- a. Identify the Lookback Period.

<u>Lookback Period for Calendar Year 2025:</u>			
2023		2024	
Jul 1 - Sep 30 3rd Quarter	Oct 1 - Dec 31 4th Quarter	Jan 1 - Mar 31 1st Quarter	Apr 1 - Jun 30 2nd Quarter

- 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*
 - 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).
 - 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*
 - For wages paid Saturday, Sunday, Monday, or Tuesday, deposit by the following Friday.
 - For wages paid Wednesday, Thursday, or Friday, deposit by the following Wednesday.
3. If an 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 it is a monthly or semiweekly schedule depositor.

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 (Same as federal).
 - 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:
Less than \$12,000	Monthly Schedule Depositor
\$12,000 or more	Semiweekly Schedule Depositor

- *Monthly Schedule Depositors*
 - 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).
 - 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*
 - For wages paid Saturday, Sunday, Monday, or Tuesday, deposit by the following Friday.
 - 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, are required to make payments as the same schedule to the Illinois Department of Revenue.

Unemployment Tax of Illinois (SUTA)

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

Federal Unemployment Tax (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) 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.

Social Security Credits (Points)

Total yearly earnings are used to figure your Social Security credits. The amount needed to earn one credit is \$1,810 for 2025 or \$1,730 for 2024. You can earn a maximum of four credits for any year. The amount needed to earn one credit increases slightly each year when average wages increase.

You must earn 40 credits to qualify for Social Security retirement benefits. A formula will be applied to your earnings to determine the benefit amount you would receive at your full retirement age. Your full retirement age is between 66 and 67, depending on the year you were born.

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

Payroll Taxes Summary

Payroll Tax	Employee's Rate	Employer's Rate	Deposit Schedule	Forms & Due Dates
Social Security Tax	First \$176,100 of gross pay (2025): 6.2%	The first \$176,100 of gross pay (2025): 6.2%	Total of Social Security Tax, Medicare Tax and Federal Income Tax withholding:	Form 941 Filing due dates: 4/30, 7/31, 10/30, 1/31 of next year
Medicare Tax	First \$200,000 of gross pay: 1.45%; Portion of gross pay in excess of \$200,000: additional 0.9% (total 2.35%)	1.45% of gross pay, no limit	If < \$2,500 for one quarters, deposit every quarter. If < \$50,000 for four quarters, deposit before 15 th day of the following month which the pay check made. If > \$50,000 for four quarters, deposit every half week.	
Federal Income Tax	Employers must withhold from employees' wages	None	If accumulates a tax liability of \$100,000 or more on any day, deposit the next day.	
State Income Tax	Employers must withhold from employees' wages	None	If < \$12,000 for four quarters, deposit before 15 th day of the following month which the pay check made. If > \$12,000 for four quarters, deposit every half week.	Form IL-941 (same filing schedule as Form 941)
Unemploy ment Tax of Illinois	None	The first \$13,909 of gross pay: 0.75% ~ 3.65% (2025)	4/30, 7/31, 10/30, and 1/31 of next year	UI-3/40 (same filing schedule as Form 941)
Federal Unemploy ment Tax	None	The first \$7,000 of gross pay: 0.6%	If accumulated unpaid amount > \$500, deposit before the end of the following month of the quarter; Otherwise 1/31 of next year	Form 940 due: 1/31 of next year