Payroll Taxes, Deposits, and Reports

Section 1: Social Security, Medicare, and Employee Income Tax

Section Objectives

1. Explain how and when payroll taxes are paid to the government.
2. Compute and record the employer’s social security and Medicare taxes.
3. Record deposit of social security, Medicare, and employee income taxes.
4. Prepare an Employer’s Quarterly Federal Tax Return, Form 941.
5. Prepare Wage and Tax Statement (Form W-2) and Annual Transmittal of Wage and Tax Statements (Form W-3).
Payment of Payroll Taxes
Objective 1

Explain how and when payroll taxes are paid to the government.
The payroll register provides information about wages subject to payroll taxes.
Who Deposits Payroll Taxes

- Employers make tax deposits for
  - Federal income tax withheld from employee earnings
  - Employees' share of social security and Medicare taxes withheld from earnings
  - Employer's share of social security and Medicare taxes
- Businesses usually make payroll tax deposits at their own bank.
There are two ways to deposit payroll taxes:

- Electronic Federal Tax Payment System (EFTPS)
- Federal Tax Deposit Coupon
The frequency of deposits depends on

- the amount of tax liability, and
- the amount reported in the lookback period.

For simplicity this textbook uses $2,500 as the tax liability threshold.

The lookback period is a four-quarter period ending on June 30 of the preceding year.
Is the amount owed less than $2,500?

Yes

The payment is due quarterly with the payroll tax return.

No

The schedule is determined from the total taxes reported during the lookback period.
Is the amount reported in the lookback period less than or equal to $50,000?

Yes

The employer is subject to the Monthly Deposit Schedule Rule.

No

The employer is subject to the Semiweekly Deposit Schedule Rule.

For new employers with no lookback period, if the amount owed is $2,500 or more, payments are due under the Monthly Deposit Schedule Rule.
Is pay day a Wednesday, Thursday, or Friday?

Yes

The deposit is due on the following Wednesday.

No

The deposit is due on the following Friday.

If the total accumulated tax liability reaches $100,000 or more on any day, a deposit is due on the next banking day.
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