College Accounting

Price
Haddosk
Farina
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).
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.
Remember that both employers and employees pay social security and Medicare taxes.

<table>
<thead>
<tr>
<th></th>
<th>Employee (Withheld)</th>
<th>Employer (Matched)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social security</td>
<td>$139.35</td>
<td>$139.35</td>
</tr>
<tr>
<td>Medicare</td>
<td>32.58</td>
<td>32.58</td>
</tr>
<tr>
<td>Total</td>
<td>$171.93</td>
<td>$171.93</td>
</tr>
<tr>
<td></td>
<td>$343.86</td>
<td></td>
</tr>
</tbody>
</table>
## Record Employer’s Payroll Taxes

<table>
<thead>
<tr>
<th>Payroll Taxes Expense</th>
<th>Social Security Tax Payable</th>
<th>Medicare Tax Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>171.93</td>
<td>139.35</td>
<td>32.58</td>
</tr>
</tbody>
</table>
At the end of January, the accounting records for Kent Furniture and Novelty Co. looked like this.

<table>
<thead>
<tr>
<th></th>
<th>Employee (Withheld)</th>
<th>Employer (Matched)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social security</td>
<td>$ 557.40</td>
<td>$557.40</td>
<td>$1,114.80</td>
</tr>
<tr>
<td>Medicare</td>
<td>130.32</td>
<td>130.32</td>
<td>260.64</td>
</tr>
<tr>
<td>Federal income tax</td>
<td>620.00</td>
<td>--</td>
<td>620.00</td>
</tr>
<tr>
<td>Total</td>
<td>$1,307.72</td>
<td>$599.76</td>
<td>$1,995.44</td>
</tr>
</tbody>
</table>

The tax liability which will be deposited is $1,995.44.
## Payroll Tax Deposit

<table>
<thead>
<tr>
<th>Social Security Tax Payable</th>
<th>Medicare Tax Payable</th>
<th>Employee Income Tax Payable</th>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>1114.80</td>
<td>260.64</td>
<td>620.00</td>
<td>1995.44</td>
</tr>
</tbody>
</table>
At the end of each quarter, the *individual earnings records* are totaled. This involves adding the columns in the *Earnings, Deductions, and Net Pay* sections.
When to File Form 941

- The due date for Form 941 is the last day of the month following the end of each calendar quarter.
- If the taxes for the quarter were deposited when due, the due date is extended by 10 days.
Completing Form 941

Sarah Kent  
Kent Furnishings and Novelty Co.  
5901 Lake June Road  
Dallas, TX 75232

- The remainder of the form is completed using the data on the quarterly summary earnings records. (See Table 11-1.)
Read Line 15 carefully.

The taxes for Kent Furniture and Novelty Co. were more than $2,500, so Line 15 is completed.

This section shows the taxes for each month during the quarter.

Line 15 and Line 11 must be equal.
Objective 5

Prepare Wage and Tax Statement (Form W-2) and Annual Transmittal of Wage and Tax Statements (Form W-3).
### Wage and Tax Statement, Form W-2

- **Employer's Name:** Kent Furniture and Novelty Co.
  - Address: 5910 Lake June Road, Dallas, TX 75232
- **Employee's Name:** Alicia Martinez
  - Address: 1712 Windmill Hill Lane, Dallas, TX 75232

| 1 | Wages, tips, other compensation | 20,800.00 |
| 2 | Federal income tax withheld | 988.00 |
| 3 | Social security wages | 20,800.00 |
| 4 | Social security tax withheld | 1,289.60 |
| 5 | Medicare wages and tips | 20,800.00 |
| 6 | Medicare tax withheld | 301.60 |
| 7 | Social security tips | 
| 8 | Allocated tips | 

**Copy A for Social Security Administration—Send this entire page with Form W-3 to the Social Security Administration; photocopies are not acceptable.**
The amounts on Form W-3 must equal the sums of the amounts on the attached Forms W-2.
Payroll Taxes, Deposits, and Reports

Section 2: Unemployment Tax and Workers’ Compensation

Section Objectives

6. Compute and record liability for federal and state unemployment taxes and record payment of the taxes.
7. Prepare an Employer’s Federal Unemployment Tax Return, Form 940 or 940-EZ.
8. Compute and record workers’ compensation insurance premiums.
The federal government allows a credit (reduction) in the federal unemployment tax for amounts charged by the state for unemployment taxes.

SUTA = state unemployment tax
FUTA = federal unemployment tax
Objective 6

Compute and record liability for federal and state unemployment taxes and record payment of the taxes.
The unemployment taxes for the payroll period ending January 6 are as follows.

Federal unemployment tax ($2,247.50 x 0.008) = $17.98
State unemployment tax ($2,247.50 x 0.040) = 89.90

Total unemployment taxes = $107.88

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 8</td>
<td>Payroll Taxes Expense</td>
<td></td>
<td>107.88</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Federal Unemployment Tax Payable</td>
<td></td>
<td></td>
<td>17.98</td>
</tr>
<tr>
<td></td>
<td>State Unemployment Tax Payable</td>
<td></td>
<td></td>
<td>89.90</td>
</tr>
<tr>
<td></td>
<td>Unemployment taxes on weekly payroll</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Earnings in Excess of Base Amount

In this textbook example, state unemployment tax is paid on the first $7,000 of annual earnings for each employee.
Earnings over $7,000 are not subject to state unemployment tax.

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Cumulative Earnings</th>
<th>Taxable Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>$2240</td>
<td><strong>$2240</strong></td>
</tr>
<tr>
<td>February</td>
<td>2240</td>
<td>4480</td>
</tr>
<tr>
<td>Mar, week 1</td>
<td>2240</td>
<td>6720</td>
</tr>
<tr>
<td>Mar, week 2</td>
<td>560</td>
<td>7280</td>
</tr>
<tr>
<td>Mar, week 3</td>
<td>560</td>
<td>7840</td>
</tr>
<tr>
<td>Mar, week 4</td>
<td>560</td>
<td>8400</td>
</tr>
</tbody>
</table>
Depositing Federal Unemployment Taxes

There are two ways to make federal unemployment tax deposits:

- Electronic deposits using EFTPS
- Federal Tax Deposit Coupon, Form 8109

Deposits are made quarterly and are due on the last day of the month following the end of the quarter.
The federal unemployment tax is calculated at the end of each quarter.

It is computed by multiplying the first $7,000 of each employee's wages by 0.008.

A deposit is required when more than $500 of federal unemployment tax is owed. (For simplicity, we will use $100.)

If $100 or less is owed, no deposit is due.
What is Form 940 or 940-EZ?

Form 940 or 940-EZ is the Employer’s Annual Federal Unemployment Tax Return form. It is a preprinted government form.
Line A shows the total state unemployment tax paid.

Line 1 shows the total compensation paid to employees.
- Line 6 shows the FUTA tax ($35,000 x 0.008).
Workers' compensation provides benefits for employees who are injured on the job.

The insurance premium, which is paid by the employer, depends on the risk involved with the work performed.
There are two ways to handle workers' compensation insurance:

- Pay an estimated annual premium in advance
- Pay a deposit at the beginning of the year and make monthly payments

The method a business uses depends on the number of its employees.
Kent Furniture and Novelty Co. has two work classifications:

- Office work
- Shipping work

The workers’ compensation premium rates are

- Office workers: $0.45 per $100 of labor costs
- Shipping workers: 1.25 per $100 of labor costs
The insurance premium rates recognize that injuries are more likely to occur to shipping workers than to office workers.

Based on employee earnings for the previous year, Kent Furniture and Novelty Co. paid an estimated premium of $1,000 for the new year.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 15</td>
<td>Workers’ Compensation Insurance Expense Cash</td>
<td>1000.00</td>
</tr>
<tr>
<td></td>
<td>Estimated workers’ compensation insurance for 20--</td>
<td>1000.00</td>
</tr>
</tbody>
</table>
At the end of the year, the actual premium was computed.

The actual premium was computed by applying the proper rates to the payroll data for the year:

- The office wages were $24,960.
  \[
  \frac{24,960}{100} \times 0.45 = 249.60 \times 0.45 = 112.32
  \]

- The shipping wages were $91,910.
  \[
  \frac{91,910}{100} \times 1.25 = 919.10 \times 1.25 = 1,148.88
  \]

Total premium for year = $1,261.20
<table>
<thead>
<tr>
<th>Classification</th>
<th>Payroll</th>
<th>Rate</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office work</td>
<td>$24,960</td>
<td>$0.45 per $100</td>
<td>$112.32</td>
</tr>
<tr>
<td>Shipping work</td>
<td>91,910</td>
<td>1.25 per $100</td>
<td>1148.88</td>
</tr>
<tr>
<td><strong>Total premium for year</strong></td>
<td></td>
<td></td>
<td><strong>$1261.20</strong></td>
</tr>
<tr>
<td>Less estimated premium paid</td>
<td></td>
<td></td>
<td>1,000.00</td>
</tr>
<tr>
<td><strong>Balance of premium due</strong></td>
<td></td>
<td></td>
<td><strong>$261.20</strong></td>
</tr>
</tbody>
</table>
On December 31 the balance due to the insurance company is recorded as a **liability** by an adjusting entry.

Kent Furniture and Novelty Co. owes $261.20 ($1,261.20 - $1,000.00) for the workers' compensation insurance.

<table>
<thead>
<tr>
<th></th>
<th>20--</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dec. 31</strong></td>
<td>Workers’ Compensation Insurance Expense</td>
<td></td>
<td>261.20</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Workers’ Compensation Insurance Payable</td>
<td></td>
<td></td>
<td>261.20</td>
</tr>
</tbody>
</table>
Internal Control Over Payroll

1. Assign only highly responsible, well-trained employees to work in payroll operations.

2. Keep payroll records in locked files. Train payroll employees to maintain confidentiality.

3. Add new employees and make all changes in pay rates only with proper written authorization from management.

4. Make changes to an employee's withholding allowances based only on a Form W-4 properly completed and signed by the employee.

5. Make voluntary deductions from employee earnings based only on a signed authorization from the employee.
6. Have the payroll checks examined by someone other than the person who prepares them. Compare each check to the entry for the employee in the payroll register.

7. Have payroll checks distributed to the employees by someone other than the person who prepares them.

8. Have the monthly payroll bank account statement received and reconciled by someone other than the person who prepares the payroll checks.

9. Use prenumbered forms for the payroll checks.

10. Maintain files of all authorization forms for adding new employees, changing pay rates, and making voluntary deductions. Also retain all Forms W-4.
Thank You

for using

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