

# Payroll Taxes for New Business Start-ups

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# Today's Objectives

- Discuss basic payroll tax liabilities.
- Discuss the basic steps in determining payroll tax obligations.
- Discuss the procedures to determine who is an employee.
- Discuss specific employer and employee payroll tax obligations.
- Discuss good payroll recordkeeping practices.



# Basic Payroll Obligations

- Withhold taxes from employees' pay.
- Pay employer payroll taxes.
- Pay payroll taxes on income an employer receives from his business (if self-employed).
- Deposit payroll taxes with the appropriate tax agencies by the due date.



# Determining Payroll Tax Liabilities

1. Who are the taxable workers?
2. What is taxable compensation?
3. What are the payroll tax obligations?
4. What are the payroll tax returns, payment dates, and tax penalties?
5. What are self-employment taxes?

# #1 TAXABLE WORKERS

- If the individuals who work for an employer are classified as employees, the employer must withhold and pay payroll taxes.
- If none of the individuals who work for an employer are classified as employees, the employer usually does not have any payroll tax liabilities.
- All information that provides evidence of the degree of control and independence must be considered.



# Employee or Independent Contractor?

- An employer generally has the right to control how employees perform their work.
- Independent contractors generally determine for themselves how the work is to be performed.



# Play it Safe

When an employer is in doubt about how to classify an employee, they should refer to the appropriate professional for an opinion.



# Form SS-8

Employers can obtain a definitive ruling from the IRS as to a newly hired worker's status as an employee or an independent contractor by completing Form SS-8.



# Employer Identification Number

If an employer is required to report payroll taxes or give tax statements to employees, the employer must have an employer identification number.



# Social Security Number

An employer is required to obtain each employee's identification, name, and social security number, which will be used on Form W-2.

# #2 TAXABLE COMPENSATION

- Pay given to an employee for services performed.
- Pay may be in cash or in other forms.
- Pay includes salaries, vacation allowances, bonuses, commissions, and fringe benefits.
- Taxable compensation = total compensation - exempt compensation - compensation not subject to withholding



# Examples of Fringe Benefits

- The use of a company-owned car
- Discounts on services
- Memberships in country clubs, health clubs, or other social clubs
- Tickets to entertainment or sporting events

# #3 PAYROLL TAX OBLIGATIONS

As a general rule, businesses have to pay a variety of payroll taxes, including but not limited to:

- Federal income tax
- Social security tax
- Medicare tax
- Federal unemployment tax
- State taxes
- Local taxes, where applicable



# Federal Income Tax Form W-4

The basis for federal income tax calculation is:

- Employee's marital status
- Number of exemptions
- Taxable compensation for federal income tax
- Pay frequency



# Social Security and Medicare Taxes

Wages paid to employees are subject to social security and Medicare taxes, unless:

- An employee has been granted tax exempt status.
- A portion of an employee's pay is deemed to be exempt.

The 2017 social security wage base limit is **\$127,200**.



# Federal Unemployment Tax

- Employer must pay FUTA tax if employee wages are at least \$1,500 in any calendar quarter, in the current or prior year, or
- An employer has at least one employee on any given day in each of 20 different calendar weeks in the current or prior year.

The FUTA wage base limit is **\$7,000** paid to each employee.



# State Unemployment Taxes

- State unemployment taxes are in addition to FUTA tax.
- Regulations vary state to state.
- Every state uses an experience rating system to determine an employer's applicable rate for the year.

# #4 PAYROLL TAX RETURNS, PAYMENT DATES, AND TAX PENALTIES

- Form 941, “Employer’s Quarterly Federal Tax Return”
- Form 944, “Employer’s Annual Federal Tax Return”
- Form 940, “Employer’s Annual Federal Unemployment (FUTA) Tax Return”
- Form W-2, “Wage and Tax Statement”



# Payroll Tax Depository Rules: Payment Dates

- Monthly depositor
- Semi-weekly depositor
- \$100,000 Rule



# Payroll Tax Penalties

- 100% payroll tax penalty.
- Failure to prepare Form W-2.
- Failure to properly and timely make payroll tax deposits.



# State and Local Filing Requirements

Employers should check with local officials concerning state and local filing requirements.

# #5 SELF-EMPLOYMENT TAXES

Self-employment tax is a social security and Medicare tax for individuals who work for themselves



# Are You Self-Employed?

You are self-employed if:

- you carry on a trade or business as a sole proprietor or an independent contractor,
- you are a member of a partnership that carries on a trade or a business, or
- you are otherwise in business for yourself.



## Maximum Earnings Subject to Self-Employment Tax

Must pay self-employment if you had net earnings of \$400 or more in 2016.



# Keeping Accurate Wage and Tax Records

- Employees' cash and noncash wages
- Any social security tax withheld or the amount the employer agrees to pay for the employee
- Any federal income tax withheld
- Any federal and state employment taxes withheld



## Other Factors to Consider When Calculating Payroll Taxes

- Employing family members
- New hire reporting
- Garnishments
- Resident and nonresident aliens

# Family Members and Payroll Taxes

Employment of a parent, child, or spouse impacts:

- federal income tax withholding
- FICA
- FUTA



## Family Members and Payroll Taxes – cont.

Employment of a parent, child, or spouse impacts:

- Federal income tax withholding
- FICA
- FUTA



# New Hire Reporting Requirements

Within 20 days of hire, employers must report:

- Employee name, address, and social security number
- Employer name, address, and federal employer ID number

Federal fine is \$25 per new hire employee that the employer fails to report or \$500 if employer and employee conspire not to report.



# Garnishments

- Defined as a garnishment summons or a writ of garnishment or attachment informing an employer that a legal claim has been made against an employee's wages.
- An employer is responsible for collecting the money from their employee and forwarding it to the court for payment.



# Creditor Garnishment Limits

- No more than 25% of an employee's disposable earnings, or
- The amount by which disposable earnings exceeds 30 times the current minimum hourly wage set by FLSA.



# State Laws on Garnishments

- States may provide more protection than the federal garnishment law.
- Laws are detailed and complex.
- Employer should consult with an attorney.



# Resident and Nonresident Aliens

- Individual taxpayer identification number
- Employer's payroll tax obligations



# Resident and Nonresident Aliens

- Green Card Test
- Substantial Presence Test



# Resident Aliens

- Generally, resident aliens are taxed in the same way as U.S. citizens.
- Their income is subject to U.S. tax and must be reported on their U.S. tax return.
- They are subject to the graduated tax rates that apply to U.S. citizens.



# Summary

- An accurate payroll is all about attention to details.
- Payroll can be a complex task for new business start-ups.
- Many small business owners outsource their payroll needs to a payroll professional.



# Paychex Payroll Services

- Payroll Service
- New Hire Reporting
- Forms W-2 Preparation
- Paychex Taxpay<sup>®</sup> Service



# Paychex Garnishment Services

- Payroll withholding of the garnishment
- Payment to the appropriate agency

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