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Employers Guide to Payroll Taxes

Payroll and accounting experts share their expertise to help today's employers navigate employee payroll taxes.

Introduction

With so many rules and regulations surrounding taxes, it can be overwhelming to clearly understand what payroll taxes are and what your responsibility, as an employer, actually is.

Even if you use a payroll and HR platform such as Gusto, for example, that can do all of the necessary payroll calculations, it's still helpful to understand how and why employer payroll taxes work.

We reached out to **Karine Woodman** founder of 24hr Bookkeeper and **Heather Tardy**, payroll expert with 24hr Bookkeeper to discuss payroll taxes and get expert advice for employers on best practices.

DISCLAIMER: ClockShark is not a payroll provider or tax expert and cannot provide legal advice or counsel about payroll taxes. The information included in this guide is intended for guidance and can vary depending on your location and many other factors. Be sure you find a qualified payroll professional such as 24hr Bookkeeper that can advise you on your payroll taxes.

What Are Payroll Taxes?

Payroll taxes are taxes paid on any wages paid to an employee that go to support social programs such as Medicare and social security.

In America, the largest source of tax revenue for the U.S. government is individual taxes at 40.72 percent, followed by social insurance taxes (25.1 percent), consumption taxes (17.58 percent), property taxes (12.2 percent), and corporate taxes (4.35 percent), according to the Tax Foundation.

There are different types of payroll taxes and while some are paid by the employer, most are deducted from the gross pay of the employee.

According to the Internal Revenue Service, employers are responsible for reporting income and employment taxes they withhold from employees, and failing to comply with these laws can result in civil and criminal sanctions for evasion of employment taxes. Further, employees can suffer if their employer fails to pay these taxes on their behalf by not being able to collect Social Security, Medicare, or unemployment.

Common Payroll Mistakes Employers Make

Karine Woodman says there are a few common mistakes that employers make when it comes to doing payroll properly. These five most common mistakes are:

• Making tax deposits late
• Not making the tax deposits at all
• Not filing payroll returns on time
• Not keeping good payroll records
• Not sending their payroll provider child support orders or garnishments for their employees

“Not paying an employee through the payroll system or service affects state and federal reporting,” Woodman explains. “It's even more difficult when they don't let their payroll provider know that they paid an employee outside of the payroll service.”

Employers need to be on top of their communication with everyone involved.

“Communication with their payroll provider is key and when they don't let them know they gave employees a bonus, they let an employee go, or that an employee quit, it makes it difficult to stay on track.”

Woodman understands that payroll can be particularly challenging for smaller businesses that rely on income from their customers. As a small business, it’s important to try to stay ahead when you’re dependent on timely payments from clients.

“When their customers don't pay on time, it affects their cash flow. This greatly affects their ability to make payroll tax payments on time and even give them peace of mind when processing payroll,” she says.

Important Payroll Stages

There are four main times that employers should focus on when preparing for payroll taxes:

1.) Hiring stage
2.) Paycheck stage
3.) Quarterly
4.) Annually

1. Hiring

The hiring stage is when employees fill out an I-9 form to verify their eligibility to work in the U.S. and a W-4, to establish tax withholding rates. These forms should be filled out before the employer performs any work.

2. Paychecks

Payroll is usually run in one of four ways:

1.) Weekly
2.) Biweekly
3.) Semimonthly
4.) Monthly

The Bureau of Labor Statistics reports that biweekly is the most common pay period established by employers, followed by weekly.

Regardless of which pay period frequency an employer uses, employers will need to withhold the correct amount for their workers' Federal income tax estimate as well as their Medicare and Social Security taxes. As an employer, you match the employees' tax deductions for Medicare and Social Security.

3. Quarterly

The quarterly tax responsibility for employers is to file quarterly tax forms and remit payment with the funds you have withheld from your employees' earnings. You'll need to file form 941 plus the equivalent state form, as well as federal taxes to the appropriate government agencies.

These forms and monies should be paid every quarter: April 30, July 31, October 31, and January 31.

In addition to withholding taxes from employees, there are other taxes that employers must pay that the employees are not required to pay.

As Heather Tardy explains, monies are paid weekly, bi-weekly, monthly, or quarterly based on your deposit schedule.

4. Annually

Year-end payroll tax responsibilities must be filed by the employer by January 31. You must send form W-2 to your employees summarizing their year's wages, taxes, etc. by Jan. 31, and for contractors, you'll need to provide a form 1099-Misc.

These are submitted to the IRS accompanied by forms W-2S and W3, as well as 1096 for 1099-MISC's. As opposed to the quarterly form 941, the annual form to reconcile payroll taxes is form 944.

Employer Payroll Tax Responsibilities

The taxes withheld from employees' earnings belong to the employee and, in some cases, must be matched by you, the employer. Other employer taxes are your responsibility as an employer.

Federal Income Tax

Employers are responsible for withholding federal income taxes from employees' wages. This amount will vary depending on the employee's W-2.

FICA

These taxes are withheld and used to fund Social Security and Medicare. Heather Tardy says these amounts must be matched by the employer. Specifically, "The employer matches everything for social security and for medicare the employer matches everything except the additional amount for Medicare."

"For Social security there is a wage base of $137,700.00," she explains. "Once you have earned that amount in the year, social security is no longer withheld. For Medicare this only changes for wages in excess of $200,000.00 once you make over that there is an additional 0.9 percent Medicare tax."

FUTA

Federal Unemployment is another tax paid by employers, based on a percentage of what they pay employees. It is not deducted from the employee and goes into a federal unemployment fund to cover unemployment costs of workers who were laid off or otherwise left involuntarily.

SUTA

Like FUTA, SUTA is another unemployment tax that is paid by employers, but on the state level. While employers pay both state and federal unemployment taxes, it's important to understand different states have different laws

Calculating Taxes

According to Tardy, there's a formula for calculating payroll taxes that involves multiplying the gross wages by each social security and medicare percentage.

"For Example, gross wages of $1,500.00 would be $93 for social security and $21.75 for Medicare," she explains. She says state taxes will vary depending on which state you're in.

"An employer will receive an unemployment rate for the year and that is used to calculate state unemployment. A percentage of the employees' gross wages and states will also set wage bases for unemployment taxes."

This means the employer will pay an unemployment tax "until the employee earns above a certain amount" and that the Federal Unemployment tax rate is 6.0 percent that applies to the first $7,000 you pay to each employee as wages in the year."

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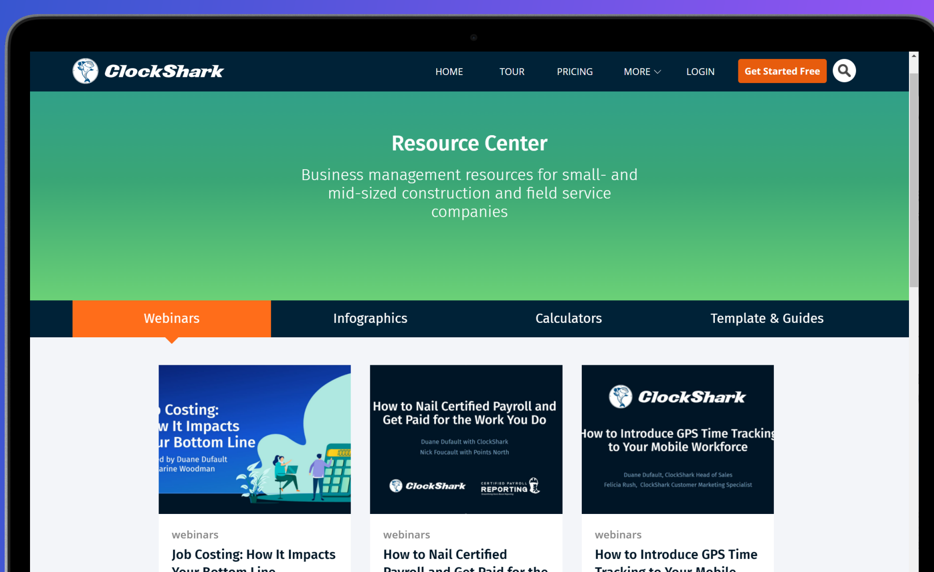
Check out our Resources page for helpful guides, templates, webinars, and more, to help make running your business, even easier.

Check Out Our Resources



Payroll Tax Deposits

Karine Woodman says the biggest mistakes she sees employers make with payroll taxes are making their tax deposits late, not making them at all, and not filing them on time.

“It's even more difficult when they don't let their payroll provider know that they paid an employee outside of the payroll service,” she advises, adding that communication is key with proper payroll practices and you should be sure to include any bonuses paid, child support orders, or garnishments as well as if an employee leaves when communicating with your payroll provider.

Payroll tax forms and deposits can be quite confusing and overwhelming. Tardy explains there are monthly, semiweekly, quarterly, and annual requirements that vary depending on the amount of your tax liability based on the “lookback period” (the 12 months [covering four quarters] ending on June 30 of the prior year).

“If your liability is under $2,500 you may pay the taxes for the current quarter with your quarterly return instead of making deposits. If you reported taxes of $50,000 or less during the lookback period you would make monthly deposits. These deposits are due by the 15th of the following month.”

Each of these are deposits requiring form 941.

“If you reported taxes of more than $50,000 for the lookback period you are a semiweekly depositor, and you would make deposits based on the following schedule:

1.) If your payday is on Wednesday, Thursday, and/or Friday, you must deposit these taxes by the following Wednesday.

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2.) If your payday is on Saturday, Sunday, Monday, and/or Tuesday, you must deposit these taxes by the following Friday. "Your look-back period if you have only filed

"Your look-back period if you have only filed Form 941 is for a state tax deposit schedule that varies by state; some states follow your federal deposit schedule and some are different.

For the 940 (Federal Unemployment) this is an estimated tax and you make a deposit when your liability reaches $500.00 in a quarter. That deposit is due by the last day of the month following the end of the quarter."

"For state unemployment that is deposited by the last day of the month following the end of the quarter (Example the end of 3rd Quarter is 09/30/2020 the deposit for 3rd quarter is due by 10/31/2020)."

For small businesses, Woodman says these payments can be a challenge because they rely heavily on their customers paying on time.

"This affects their cash flow which greatly affects their ability to make payroll tax payments on time and even give them peace of mind when processing payroll," she says.

Making Payroll Taxes Easier

To ease the burden of filing payroll taxes, Woodman says having a payroll provider is a great idea but that companies should at least have a good software program that helps automate the process.

"There is payroll software out there that collects for all payroll taxes at the time of payroll," she says, warning that it may not be a good fit for some employers with cash flow issues, because it takes both wages and taxes out at the same time. "It could put an even bigger strain on their finances."

Woodman offers these tips to employers for improving their payroll tax processes:

- Make sure payroll is run through a reliable payroll system to run payroll, make tax deposits, and file the returns.
- Communicate with your payroll provider.
- Keep payroll records updated.
- Ensure you have all the logins for the payroll taxes so you can be sure that the payroll software is making the payments on time.
- Respond to payroll notices immediately to avoid late fees and penalties.

Conclusion

Payroll taxes are complicated and complex and, since they vary by state, can be overwhelming. Using a reliable payroll system or having a professional handle it, will help ensure you are staying compliant and paying your employer payroll taxes properly.

About 24hr Bookkeeper

24hr Bookkeeper is a professional accounting service provider specializing in financials for the construction industry, including financial workflows, bookkeeping, integrations, and more. You can reach out to them if you are interested in learning more by [clicking here].

ClockShark makes payroll taxes even easier to do. With accurate time tracking and a variety of accounting and payroll integrations, you'll not only be able to stay organized when it's time for payroll taxes, but you'll feel more confident that it's being done correctly. Try ClockShark for yourself to see the difference!

Learn More About ClockShark