

5 Federal and State Unemployment Taxes



LEARNING OBJECTIVES

- Calculate FUTA tax
- Calculate SUTA tax
- Determine matching employer taxes
- Record an employer payroll tax journal entry
- Account for nonemployee compensation
- Calculate self-employment tax

The payroll process is not complete once each employee's check has been written. In addition to remitting employee withholdings to the appropriate government entity, the employer must pay additional taxes (based on this payroll) that are not withheld from gross earnings. While some of these employer taxes mirror those that were withheld from the employees, others are specific to the employer. These employer taxes represent an additional expense that the employer must bear as a result of compensating employees. In this chapter, you will first examine the manner in which federal unemployment and state unemployment taxes are calculated. You will then examine the matching Social Security and Medicare taxes that are paid by the employer. After reviewing the journal entry to account for these employer taxes, you'll finish by examining nonemployee compensation and self-employment tax.



Videos available! Check out the Video Launch Pad in your student exercise file download to access videos associated with this chapter. One video presents a chapter overview, and the other provides more detail on a key chapter topic.

<http://www.lablearning.com>


CASE STUDY

Determining Employer Taxes for Lucky Ties Apparel

Lucky Ties has now successfully withheld all necessary amounts from the employees' earnings. The next step is for the company to determine the proper amount of employer taxes to remit. These taxes are not withheld from employee pay and therefore are entirely satisfied by the employer. Although these taxes are all based on employees' taxable earnings, some are matched by the employer, while others are paid solely by the employer.

As part of your examination of these employer taxes, you first look at federal unemployment tax, and the extent to which it is reduced as a result of paying state unemployment tax. You then review state unemployment tax and the different effective rates in different states. You next examine the manner in which Social Security tax and Medicare tax are matched by the employer and conclude by reviewing the manner in which the employer payroll taxes are recorded on the company's books.

FUTA and SUTA taxes are not withheld from employee pay (in most states) and therefore do not appear on the check stub.



MY CONSTRUCTION COMPANY
1001 Fifth Avenue
New York, NY 10022


Check Number: 000001
Pay date: 12/10/2019
Social Security No.: ***-**-1119

Pay to the order of: CLARK MITCHELL

This amount: FIVE HUNDRED ELEVEN AND 82/100 DOLLARS \$511.82

AUTHORIZED SIGNATURE
VOID AFTER 60 DAYS

⑈00000 ⑈ ⑆ 8 2 7 6 1 9 5 7 8 ⑆ 6 0 0 4 2 5 6 0 0 ⑈



MY CONSTRUCTION COMPANY
1001 Fifth Avenue
New York, NY 10022

CLARK MITCHELL
547 Smith Street
New York, NY 10033

Period ending: 12/8/2019
Pay date: 12/10/2019

Earnings	Rate	Hours	This Period	Year to Date	Deductions	This Period	Year to Date
Regular	\$14.00	40.00	\$560.00	\$28,000.00	Statutory		
Overtime	\$21.00	4.00	\$84.00	\$6,615.00	Federal Income Tax	\$19.00	\$1,350.00
Holiday	\$30.00	0.00	\$0.00	\$2,250.00	Social Security Tax	\$39.93	\$2,285.63
					Medicare Tax	\$9.34	\$534.54
					NYS Income Tax	\$12.67	\$783.33
					NYC Income Tax	\$8.44	\$472.22
					NYSDI Tax	\$0.60	\$30.00
Gross Pay			\$644.00	\$36,865.00	Other		
					401(k)	\$32.20*	\$1,843.25
					Life Insurance	\$10.00	\$500.00
					Net Pay	\$511.82	

* Excluded from federal taxable wages

Social Security Number: ***-**-1119
Taxable Marital Status: Married
Exemptions/Allowances:
Federal: 4, \$25 Additional Tax
State: 3
Local: 3

Other Benefits and Information

	This Period	Year to Date
Vacation Hrs.		64.00
Sick Hrs.		24.00

Federal Unemployment Tax (FUTA)

Federal unemployment tax (also referred to as FUTA, from the Federal Unemployment Tax Act) is levied on the employer, based on the taxable earnings of the employees. The federal government uses these taxes to provide unemployment compensation to individuals who are out of work.

TIP! Certain compensation, such as that paid to agricultural workers, government employees, and employees of religious organizations, is exempt from FUTA tax.

As of 2018 the tax is levied on only the first \$7,000 of taxable wages for federal income tax withholding. Once an employee has earned \$7,000 in a single year, no further FUTA tax is levied on the employer for this employee. As of 2018 the FUTA tax rate is 6%. However, employers may take advantage of a credit against this 6% rate for having paid state unemployment tax (which we will examine in detail later in this chapter). This credit is 5.4%, resulting in an actual FUTA tax rate of 0.6% (6% – 5.4%).

WARNING! The credit of 5.4% is not based on the state unemployment tax rate in an employer's state (this specific rate is dictated by the federal government). The full credit may be used even when the state unemployment tax rate is below 5.4%.

Credit Reduction States

In some instances, states must take out loans from the federal government in order to provide unemployment benefits to all eligible individuals in the state. These loans are referred to as **Title XII advances** (named after Title XII of the Social Security Act), and they must be repaid in a timely manner.

If a state maintains an outstanding loan balance as of January 1 for two consecutive years and has not fully repaid the loan as of November 1 of the second year, it is subject to a credit reduction. Instead of a 5.4% credit, these states receive a lower credit, and therefore their employers must pay a higher FUTA tax rate than the 0.6% that would otherwise be in place. These credit reductions can increase from one year to the next if a state remains in default for consecutive years.

2018 Credit Reduction States

Credit Reduction; FUTA Rate	State/Territory
2.4%; 3.0%	U.S. Virgin Islands

Here we will review how to calculate FUTA tax. In Chapter 6 we will examine how FUTA tax is commonly reported on an annual basis within Form 940. Regardless of whether or not an employer operates in a credit-reduction state, the same five-step process may be used to determine FUTA tax owed:

- Step 1:** Determine the applicable FUTA tax rate based on whether the employee works in a credit-reduction state.
- Step 2:** Determine current period taxable earnings for FUTA tax.
- Step 3:** Add the Step 2 result to the year-to-date taxable earnings for FUTA tax.
- Step 4:**
- If the Step 3 result exceeds the taxable wage base, determine the amount by which it is higher, and subtract this amount from the Step 2 result. Your new amount (if it is positive) is used to determine FUTA tax in Step 5 (a negative result here indicates that \$0 should be used in Step 5).
 - If the Step 3 result does not exceed the taxable wage base, use the Step 2 result when determining FUTA tax in Step 5.
- Step 5:** Multiply the tax rate from Step 1 by the Step 4 result.

WARNING! Employers may also be subject to a reduction of the FUTA tax credit if they do not remit state unemployment tax payments (SUTA tax, which will be discussed shortly) in a timely manner.

Making FUTA Tax Payments

FUTA tax must be remitted by the employer on a quarterly basis. One exception to this occurs when total FUTA tax owed by the employer is less than \$500. In this instance, the employer may postpone payment of applicable FUTA tax either until the total tax owed exceeds \$500 or until the end of the year. When FUTA taxes exceed \$500 at the end of a quarter, they must be paid by the final day of the first month after the end of the quarter. As a result, the four payment dates for FUTA tax during the year are as follows:

Quarter	FUTA Tax Due Date
1st quarter	April 30
2nd quarter	July 31
3rd quarter	October 31
4th quarter	January 31

If the total FUTA tax owed for the 4th quarter exceeds \$500, it must be deposited by the due date of January 31. However, if 4th quarter FUTA tax does not exceed \$500, the employer may mail payment with the year-end Form 940 (which will be examined in detail in Chapter 6).

Case in Point 5-1**Calculate FUTA Tax**

For each of the following businesses, calculate the FUTA tax that is owed for the pay period described. Base your answers on the 2018 FUTA rate information and 2018 credit-reduction state information provided earlier.

1. Caramia Company employs three workers in Colorado Springs, CO. As of the beginning of the current pay period, these employees have earned \$42,500, \$6,800, and \$2,000. Calculate FUTA tax for the current pay period if these employees earn taxable pay of \$3,140, \$1,470, and \$1,500, respectively.

Step 1: Colorado is not a credit-reduction state. Therefore, Caramia Company is entitled to claim the entire 5.4% credit, resulting in a FUTA tax rate of 0.6% (6% minus 5.4%).

Step 2: Taxable earnings for the three employees are provided above as \$3,140, \$1,470, and \$1,500.

Step 3: The first employee earned \$3,140 during the current period, with year-to-date earnings of \$42,500, for a total of \$45,640.

The second employee earned \$1,470 during the current period, with year-to-date earnings of \$6,800, for a total of \$8,270.

The third employee earned \$1,500 during the current period, with year-to-date earnings of \$2,000, for a total of \$3,500.

Step 4: The Step 3 result for the first employee exceeds the wage base of \$7,000 by \$38,640. When subtracted from the Step 2 result of \$3,140, we arrive at -\$35,500. As this is a negative amount, none of the current year taxable earnings are subject to FUTA tax.

The Step 3 result for the second employee exceeds the wage base of \$7,000 by \$1,270. When subtracted from the Step 2 result of \$1,470, we arrive at \$200. This positive amount is subject to FUTA tax.

The Step 3 result for the third employee does not exceed the wage base of \$7,000; therefore, all \$1,500 of current period taxable earnings are subject to FUTA tax.

Step 5: With total earnings subject to FUTA tax of \$1,700 (\$0 + \$200 + \$1,500), the FUTA tax owed by the employer is \$10.20 ($\$1,700 \times 0.6\%$).

2. Perfect Painting employs 17 workers in Des Moines, IA. For the current pay period, the employees earn total taxable pay of \$24,500. Of this amount, only \$3,250 is subject to FUTA tax, as this is the portion of individual employees' earnings that does not exceed the \$7,000 threshold. Calculate FUTA tax based on these earnings.

Step 1: Iowa is not a credit-reduction state, and therefore Perfect Painting is entitled to the full credit of 5.4%, resulting in a FUTA tax rate of 0.6% ($6\% - 5.4\%$).

Step 2: Taxable earnings are given above as \$24,500.

Steps 3 and 4: Although year-to-date earnings are not provided here, the goal of Steps 3 and 4 is to determine the portion of current period taxable earnings on which FUTA tax should be calculated. This amount is given as \$3,250.

Step 5: With total earnings subject to FUTA tax of \$3,250, the FUTA tax owed by the employer is \$19.50 ($\$3,250 \times 0.6\%$).

3. CJ Industries employs two workers in the U.S. Virgin Islands. As of the beginning of the current pay period, these employees have earned, to date, \$16,300 and \$4,100, respectively. Calculate FUTA tax for the current pay period if these employees earn taxable pay of \$1,275 and \$840, respectively.

Step 1: Employers in the U.S. Virgin Islands are subject to a credit reduction, in which the credit is reduced by 2.4%, the FUTA tax rate for CJ Industries is 3.0% ($6.0\% - 3.0\%$).

Step 2: Taxable earnings are given above as \$1,275 and \$840.

Step 3: The first employee earned \$1,275 during the current period, with year-to-date earnings of \$16,300, for a total of \$17,575.

The second employee earned \$840 during the current period, with year-to-date earnings of \$4,100, for a total of \$4,940.

Step 4: The Step 3 result for the first employee exceeds the wage base of \$7,000 by \$10,575. When subtracted from the Step 2 result of \$1,275, we arrive at $-\$9,300$. As this is a negative amount, none of the current year taxable earnings are subject to FUTA tax.

The Step 3 result for the second employee does not exceed the wage base of \$7,000; therefore, all \$840 of current period taxable earnings are subject to FUTA tax.

Step 5: When the taxable earnings of \$840 are multiplied by the applicable tax rate from Step 1 of 3.0% (recall that the FUTA tax rate is higher in this credit-reduction state), total FUTA tax owed by the employer is \$25.20.

State Unemployment Tax (SUTA)

Similar to FUTA, state unemployment tax (also referred to as SUTA, from the State Unemployment Tax Act) is levied on the employer based on the taxable earnings of the employees. Unemployment programs are run through the efforts of both the federal and individual state governments. The majority of unemployment taxes are paid not to the federal government but to the states through the collection of SUTA tax.

NOTE! As of 2019 there are three states (Alaska, New Jersey, and Pennsylvania) that levy SUTA tax on the employee as well as the employer.

As with FUTA tax, there is a threshold in most states over which SUTA tax is not levied on taxable earnings. The SUTA tax rate applicable to an employer varies from state to state and in most cases is dependent on the number of employees who have been laid off by the employer. As an employer lays off more employees and therefore creates more workers who are eligible for unemployment benefits, the employer must contribute more to the unemployment program through higher SUTA taxes.

SUTA Experience Rating

Employers are assigned an appropriate SUTA tax rate (resulting from multiple factors, including employee turnover) by their state at the beginning of each year. These SUTA tax rates are determined by the employer's **experience rating**, which is based on a calculation that differs from state to state. Some states will permit an employer to make a voluntary contribution to its unemployment tax account (a one-time, lump sum payment) in order to reduce its SUTA tax rate. This approach could yield tax savings for the employer if the lump-sum payment is ultimately less than the additional SUTA taxes that would have been paid at the otherwise higher SUTA tax rate.

The SUTA tax rates prescribed by individual states for 2019 range from a low of 0% to a high of 14.37%. The wage threshold over which SUTA tax is not assessed ranges from a low of \$7,000 to a high of \$49,800. As discussed in Chapter 1, unless noted otherwise, we assume a state unemployment tax rate of 3.4% and a threshold of \$8,500 throughout this book.

The *new employer* SUTA tax rate in each state is lower than the maximum SUTA tax rate that may be assigned. As a result, years ago some employers that experienced significant employee turnover, and therefore were subject to high SUTA tax rates, circumvented the application of this high rate by forming new companies and transferring all employees to these new businesses. The result was that the new employer SUTA tax rate was applied to the employees in these newly formed businesses, in spite of the fact that employee turnover for this group of employees was high. To prevent employers from artificially avoiding high SUTA tax rates in this manner, the SUTA Dumping Prevention Act of 2004 was enacted by President George W. Bush. The act requires states to ensure that prior employee turnover impacts the SUTA tax rate, even when a new business is formed by an employer.

The majority of states allow employers to claim a credit for SUTA tax paid for an employee who has already worked (and been subject to SUTA tax) in a different state during the same year. The intent is to ensure that employers do not pay more than a reasonable amount of SUTA tax in a given year as a result of an employee working in multiple states.

To calculate applicable SUTA tax, the following four-step process may be utilized:

- Step 1:** Determine current period taxable earnings for SUTA tax.
- Step 2:** Add the Step 1 result to the year-to-date taxable earnings for SUTA tax.
- Step 3:**
- If the Step 2 result exceeds the taxable wage base, determine the amount by which it is higher, and subtract this amount from the Step 1 result. Your new amount (if it is positive) will be used to determine SUTA tax in Step 4 (a negative result here indicates that \$0 should be used in Step 4).
 - If the Step 2 result does not exceed the taxable wage base, use the Step 1 result when determining SUTA tax in Step 4.
- Step 4:** Multiply the SUTA tax rate by the Step 3 result.

Case in Point 5-2

Calculate SUTA Tax

For each of the following businesses, calculate the SUTA tax for the pay period described. Assume a SUTA tax rate of 3.4% and a taxable earnings threshold of \$8,500.

1. Blast, Inc., employs two workers who, as of the beginning of the current pay period, have earned \$2,450 and \$8,100. Calculate SUTA tax for the current pay period if these employees earn taxable pay of \$725 and \$640, respectively.

Step 1: Current period taxable earnings for the two employees are given above as \$725 and \$640.

Step 2: When current period taxable earnings are added to year-to-date taxable earnings, the first employee totals \$3,175 (\$725 + \$2,450), and the second employee totals \$8,740 (\$640 + \$8,100).

Step 3: The first employee's Step 2 total does not exceed the taxable wage base. Therefore, the entire current period taxable earnings of \$725 are subject to SUTA tax.

The second employee's Step 2 total exceeds the taxable wage base of \$8,500 by \$240. When subtracted from the Step 1 result of \$640, we arrive at \$400, which is subject to SUTA tax.

Step 4: When total taxable earnings of \$1,125 (\$725 + \$400) are multiplied by the SUTA tax rate of 3.4%, total SUTA tax owed by the employer is \$38.25.

2. Football Enterprises employs 43 workers who, for the current pay period, earn total taxable pay of \$57,220. Of this amount, only \$10,400 is subject to SUTA tax, as this is the portion of individual employee earnings that does not exceed the \$8,500 threshold. Calculate SUTA tax based on these earnings.

Step 1: Current period taxable earnings are given above as \$57,220.

Steps 2 and 3: Although year-to-date earnings are not provided here, the goal of Steps 2 and 3 is to determine the portion of current period taxable earnings on which SUTA tax should be calculated. This amount is given as \$10,400.

Step 4: When total taxable earnings of \$10,400 are multiplied by the SUTA tax rate of 3.4%, total SUTA tax owed by the employer is \$353.60.

Matching Social Security and Medicare Tax

In the last chapter you learned how Social Security and Medicare taxes are withheld from employee gross pay. In this way, employees indirectly pay both of these taxes to the federal government. In addition to these withholdings, as of 2019 the employer must then pay an equal amount of Social Security and Medicare tax. For example, if an employer withholds \$450 in Social Security and Medicare tax from an employee's earnings, the employer must then pay an additional \$450 for the employer portion of these taxes. The resulting total tax remitted by the employer is \$900 (\$450 employee portion + \$450 employer portion). In this instance, the employer is said to be *matching* the employee's taxes.

Similar to FUTA and SUTA tax, these employer Social Security and Medicare taxes are an expense of the employer. As they are matched to the amounts owed by the employee, these taxes are based on the level of employee earnings.

WARNING!

Note that although employers are typically said to be matching Social Security tax, the Social Security tax rate has at certain times been different for the employee and the employer. For example, a temporary tax cut from 2011 to 2012 dictated that the employee's portion of Social Security tax was reduced to 4.2%, while the employer portion remained at 6.2%.

Keep in mind that while standard Medicare tax is matched by the employer, Additional Medicare Tax is not. Therefore, even if an employee's earnings exceed the applicable Additional Medicare Tax threshold, the employer is only responsible for matching Medicare tax at the standard 1.45% rate for all taxable earnings.

Case in Point 5-3

Calculate Employer Social Security and Medicare Tax

For the following circumstance, determine the employer's matching Social Security and Medicare taxes:

1. For the most recent pay period, total Social Security and Medicare taxes withheld from all employee earnings totaled \$601.40 and \$140.65, respectively. Note that no single employee has, to date, exceeded his/her Additional Medicare Tax threshold.

Since the employer is required to match all Social Security and Medicare taxes withheld from employee gross pay, the employer's Social Security and Medicare taxes are \$601.40 and \$140.65, respectively.

2. Rodney Alford files as single on his tax return and had taxable earnings for FICA of \$2,000 during the most recent pay period. His earnings to date, prior to the current pay period, were \$199,000.

Rodney previously exceeded the Social Security wage base of \$132,900, and therefore neither he nor his employer is responsible for Social Security tax on the current period earnings. Although Rodney did exceed the Additional Medicare Tax threshold of \$200,000 for an individual who files as single on his tax return (\$199,000 previous earnings + \$2,000 current period taxable earnings = \$201,000 total year-to-date earnings), his employer must match only regular Medicare tax, not Additional Medicare Tax. As a result, Rodney's employer must pay matching Medicare tax on the current period taxable earnings of \$29 (\$2,000 taxable earnings \times 1.45% regular Medicare tax rate).

Accounting for Payroll (Employer Portion)

Before You Begin: This section assumes prior knowledge of the transaction-recording process. Consult with your instructor to determine if you are required to review this material.

As you saw in the prior chapter, all payroll activity must be recorded in journal entries. Employee gross pay and its associated withholding amounts are recorded first. The second journal entry that must be recorded is designed to record the employer taxes we have examined in this chapter.

The first journal entry recorded both salaries expense and wages expense, because all of the amounts discussed in that journal entry (both the withholding amounts and the net pay) had been earned by the employees. This second journal entry instead records payroll tax expense, which is incurred by the employer as a result of maintaining employees. This entry does not include those amounts earned by the employees. Instead, all amounts in this journal entry are paid by the employer.

12/5	Payroll Tax Expense	XXXXX	
	Federal Unemployment Tax Payable		XXXXX
	State Unemployment Tax Payable		XXXXX
	Social Security Tax Payable		XXXXX
	Medicare Tax Payable		XXXXX
	<i>Recording of Employer Payroll Tax Expenses</i>		

The credits to Social Security Tax Payable and Medicare Tax Payable are identical in this journal entry to those that we recorded in the prior journal entry (they are *matched* to the earlier figures). It is important to record these items separately from the first journal entry, so that the different types of expenses are properly debited.

Case in Point 5-4 Record an Employer Payroll Journal Entry

In this example, we will record a journal entry for Lucky Ties Apparel, in which we account for employer payroll taxes. The only employee who had not exceeded the FUTA and SUTA taxable wage bases prior to the current period was Donald McHenry, whose year-to-date earnings prior to the current period were \$5,200.

12/5	Payroll Tax Expense	400.00	
	Federal Unemployment Tax Payable		4.36
	State Unemployment Tax Payable		24.71
	Social Security Tax Payable		283.41
	Medicare Tax Payable		87.52
	<i>Recording of Employer Payroll Tax Expenses</i>		

The debit to Payroll Tax Expense of \$400 is the sum of the credited amounts below. We have already determined the Social Security Tax Payable and Medicare Tax Payable amounts from the prior journal entry in Chapter 4.

When Donald's taxable earnings of \$726.75 are added to year-to-date earnings of \$5,200, neither the \$7,000 FUTA taxable wage base nor the \$8,500 SUTA taxable wage base is exceeded, and therefore all of the current period's taxable earnings are subject to FUTA and SUTA tax. The FUTA tax amount of \$4.36 is calculated as $0.6\% \times \$726.75$, while the SUTA tax amount of \$24.71 is calculated as $3.4\% \times \$726.75$.

TIP! As in the previous journal entry, all taxes are credited to liability accounts because they are immediately owed to the respective government entities.

Nonemployee Compensation

Throughout the textbook thus far, you have examined only the manner in which payroll-related topics impact employees. However, a wide variety of individuals perform services for employers without qualifying as employees. The general rule that employers use to define these individuals as **independent contractors**, instead of employees, is that these workers determine how the employer's work is completed and what is to be done. For example, a lawyer can provide legal services through whatever method desired, as long as the legal representation is sufficient. Because the employer can't exert control over the method used by the lawyer, the *employee* classification does not apply. This lawyer would be considered an independent contractor.

When an employer utilizes the services of an independent contractor, a number of forms that are specific to this circumstance must be completed. These include Form W-9 (Request for Taxpayer Identification Number and Certification), Form 1099-MISC (Miscellaneous Income), and Form 1096 (Annual Summary and Transmittal of U.S. Information Returns).

Independent Contractors

On the Web

irs.gov/pub/irs-pdf/fss8.pdf



Independent contractors, who perform services for employers without qualifying as employees, can do so both with or without having formed a business of their own. Among those professionals who most frequently work as independent contractors are accountants, lawyers, doctors, and subcontractors. The determination of whether an individual is an employee or an independent contractor can be unclear at times, but it essentially comes down to whether the employer can control how the work is performed. If the employer is unable to make this determination, Form SS-8 (Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding) may be filed. The IRS, upon receipt and review of this form, will render a decision as to the worker's employment classification.

Statutory Employees

Statutory employees, for whom FICA taxes must be withheld, are those individuals who would otherwise be considered independent contractors but who meet certain requirements that dictate that they be categorized as employees. Among those who may qualify as statutory employees are drivers who deliver food or who pick up and deliver laundry/dry cleaning, life insurance sales agents, individuals who work on goods/materials from home and subsequently return them to a designated person, and full-time traveling or city salespeople. An employer must ensure that workers should not be classified as statutory employees prior to treating them as independent contractors.

Form W-9

On the Web

irs.gov/pub/irs-pdf/fw9.pdf



Although employers (in many instances) are not responsible for withholding taxes from the compensation of independent contractors, they are obligated to report the individual's annual compensation to the federal government. They must also inform the independent contractor of his/her annual compensation at year-end. To accurately complete these forms, the employer must obtain either the independent contractor's Social Security number or the applicable Employer Identification Number (for the business under which the independent contractor operates, or for a resident alien, for example). This may be done through the use of Form W-9 (Request for Taxpayer Identification Number and Certification). Upon receipt of Form W-9, the employer retains the form and does not submit it to the IRS.

Examine the Form: W-9

Form W-9 primarily contains the independent contractor's demographic information.

Form W-9
(Rev. October 2018)
Department of the Treasury
Internal Revenue Service

Request for Taxpayer Identification Number and Certification

Give Form to the requester. Do not send to the IRS.

Go to www.irs.gov/FormW9 for instructions and the latest information.

1 Name (as shown on your income tax return). Name is required on this line; do not leave this line blank.

2 Business name/disregarded entity name, if different from above

3 Check appropriate box for federal tax classification of the person whose name is entered on line 1. Check only **one** of the following seven boxes.

Individual/sole proprietor or single-member LLC

C Corporation

S Corporation

Partnership

Trust/estate

Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=Partnership) ▶ _____

Other (see instructions) ▶ _____

4 Exemptions (codes apply only to certain entities, not individuals; see instructions on page 3):

Exempt payee code (if any) _____

Exemption from FATCA reporting code (if any) _____

(Applies to accounts maintained outside the U.S.)

5 Address (number, street, and apt. or suite no.) See instructions.

6 City, state, and ZIP code

7 List account number(s) here (optional)

Requester's name and address (optional)

Part I Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. The TIN provided must match the name given on line 1 to avoid backup withholding. For individuals, this is generally your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the instructions for Part I, later. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How to get a TIN*, later.

Note: If the account is in more than one name, see the instructions for line 1. Also see *What Name and Number To Give the Requester* for guidelines on whose number to enter.

Social security number

____ - ____ - ____

or

Employer identification number

____ - ____ - ____ - ____ - ____

Part II Certification

Under penalties of perjury, I certify that:

- The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me); and
- I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding; and
- I am a U.S. citizen or other U.S. person (defined below); and
- The FATCA code(s) entered on this form (if any) indicating that I am exempt from FATCA reporting is correct.

Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN. See the instructions for Part II, later.

Sign Here

Signature of U.S. person ▶ _____

Date ▶ _____

1. Top portion of form: Name (either of the individual or business), Business Name (if applicable; typically the Doing Business As name), Federal Tax Classification (Individual/Sole Proprietor is typically checked by an independent contractor), and Address should be completed.

2. Exemptions: Not typically completed by U.S.-based independent contractors. Enter the applicable code from the Form W-9 instructions if you are exempt from backup withholding or Foreign Account Tax Compliance Act (FATCA) reporting.

3. List account number(s) here: Typically left blank (accounts already established with the IRS to pay back taxes can be entered here).

4. Requester's name and address: This item does not need to be completed for the form to be valid. If utilized, it should include information for the entity requesting that the independent contractor complete the form.

5. Taxpayer Identification Number: Either the Social Security number or Employer Identification Number of the independent contractor should be entered here.

6. Certification: Form must be signed and dated to be valid.

Form 1099-MISC

On the Web

irs.gov/pub/irs-pdf/f1099misc.pdf



At the end of the year, the employer must both furnish the independent contractor with a copy of Form 1099-MISC and remit a copy of the form to the IRS. Form 1099-MISC displays total annual earnings for the independent contractor. The form must be provided to the independent contractor no later than January 31 of the following year. This is necessary so that the independent contractor has sufficient time to complete his/her individual tax return (due on April 15) after receiving the form.

TIP! For many items in Form 1099-MISC (such as rents, other income, medical and health-care benefits, nonemployee compensation, crop-insurance proceeds, and gross proceeds paid to an attorney), only annual compensation exceeding \$600 must be reported.

Examine the Form: 1099-MISC

Form 1099-MISC reports many different types of income and withholding amounts.

<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0115		Miscellaneous Income	
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents	\$	2019	Form 1099-MISC
		2 Royalties	\$	4 Federal income tax withheld	
PAYER'S TIN		3 Other income	\$	5 Fishing boat proceeds	6 Medical and health care payments
RECIPIENT'S TIN		7 Nonemployee compensation	\$	8 Substitute payments in lieu of dividends or interest	Copy 1 For State Tax Department
RECIPIENT'S name		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	\$	10 Crop insurance proceeds	
Street address (including apt. no.)		11		12	
City or town, state or province, country, and ZIP or foreign postal code		13 Excess golden parachute payments	\$	14 Gross proceeds paid to an attorney	
Account number (see instructions)	FATCA filing requirement <input type="checkbox"/>	15a Section 409A deferrals	\$	15b Section 409A income	\$
16 State tax withheld	\$	17 State/Payer's state no.	\$	18 State income	\$
Form 1099-MISC		www.irs.gov/Form1099MISC		Department of the Treasury - Internal Revenue Service	

Void/Corrected: The Void box is checked when an employer determines that a partially completed electronic form contains an inaccuracy. Checking the box ensures that the form is disregarded when submitted. The Corrected box is checked when newly submitted forms are completed to correct a previous error.

Left side of form: Payer and recipient information should be fully completed. The account number box is optional and may be used by the payer to assign unique numbers to different 1099-MISC forms. The FATCA filing requirement box is checked only if the organization completing the form is required to report that a foreign financial account is associated with the 1099-MISC.

Boxes 1-15: Income and withholding amounts are entered in these boxes. The majority of independent contractors' earnings are considered to be nonemployee compensation and therefore are reported in box 7.

Boxes 16-18: These boxes are not completed for federal tax purposes. In some instances, these boxes are completed in order to report state earnings and withholding amounts for up to two states.

Form 1096

On the Web

irs.gov/pub/irs-pdf/f1096.pdf



So that the federal government possesses a record of the compensation paid to independent contractors, the employer must complete and submit both Form 1096 (Annual Summary and Transmittal of U.S. Information Returns) and copies of all 1099-MISC forms at the end of each year. Note that Form 1096 must accompany only paper versions of Form 1099-MISC. When electronic versions of Form 1099-MISC are submitted, the due date is extended to March 31 (unless this date is impacted by a weekend or holiday) and Form 1096 is not required. When Form 1099-MISC is completed, paper versions of these two forms must then be submitted to the IRS by March 1 of the following year (this date changes by a day or two during leap years and when it falls on a weekend). Form 1096 provides a total of all compensation paid to every independent contractor during the year.

WARNING! Form 1096 is used to report compensation that has been entered on a wide variety of forms. If an employer has completed multiple types of these forms (such as at least one Form 1099-MISC and one Form 1099-INT, which is used to report interest earned), then the company must submit a separate Form 1096 for each type.

Examine the Form: 1096

Form 1096 provides an annual summary of compensation for one of the form types listed at the bottom of the form.

Do Not Staple 6969		Form 1096										OMB No. 1545-0108				
Department of the Treasury Internal Revenue Service		Annual Summary and Transmittal of U.S. Information Returns										2019				
FILER'S name																
Street address (including room or suite number)																
City or town, state or province, country, and ZIP or foreign postal code																
Name of person to contact						Telephone number						For Official Use Only <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>				
Email address						Fax number										
1 Employer identification number			2 Social security number			3 Total number of forms		4 Federal income tax withheld \$		5 Total amount reported with this Form 1096 \$						
6 Enter an "X" in only one box below to indicate the type of form being filed.												7 Form 1099-MISC with NEC in box 7, check <input type="checkbox"/>				
W-2G 32	1097-BTC 50	1098 81	1098-C 78	1098-E 84	1098-F 03	1098-Q 74	1098-T 83	1099-A 80	1099-B 79	1099-C 85	1099-CAP 73	1099-DIV 91	1099-G 86	1099-INT 92	1099-K 10	1099-LS 16
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1099-LTC 93	1099-MISC 95	1099-OID 96	1099-PATR 97	1099-Q 31	1099-QA 1A	1099-R 98	1099-S 75	1099-SA 94	1099-SB 43	3921 25	3922 26	5498 28	5498-ESA 72	5498-QA 2A	5498-SA 27	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Return this entire page to the Internal Revenue Service. Photocopies are not acceptable.																
Under penalties of perjury, I declare that I have examined this return and accompanying documents and, to the best of my knowledge and belief, they are true, correct, and complete.																
Signature ▶						Title ▶				Date ▶						

Top of the form: Company name, address, contact person, telephone number, email address, and fax number should be completed.

Examine the Form: 1096 (continued)

Boxes 1–2: Either the Employer Identification Number or the Social Security number of the company's owner should be entered. Only one of these boxes should be completed.

Box 3: The total number of completed forms (not pages) that are being submitted with Form 1096 should be entered here.

Box 4: Total federal income tax withheld from Form 1099-MISC (or other form type being reported) is entered here.

Box 5: Total compensation for all independent contractors is entered here.

Box 6: Only one box should contain an "X," as Form 1096 can report on only one form type. For independent contractors, the Form 1099-MISC box is checked.

Box 7: Unless this is the company's final return (due to the ceasing of operations), this box is left blank.

Signature line: The contact person's signature and title, as well as the date, must be entered for the form to be valid.

Case in Point 5-5

Complete Form 1099-MISC and Form 1096

In this example, we will complete Form 1099-MISC for Blaine Freemont (SSN 444-44-4444), an independent contractor of Fallen Bear Company (745 Alpine Way, Rapid City, SD 57703). Blaine (who lives at 84 Mountain Avenue, Rapid City, SD 57702) earns nonemployee compensation of \$21,000 during the year. Fallen Bear Company (Federal Tax Identification #33-3333333) does not use account numbers and does not report state data.

We will then complete Form 1096 for Fallen Bear Company, which, in addition to Blaine Freemont's Form 1099-MISC, issues three other 1099-MISC forms. Total compensation across these four forms is \$62,500, on which no federal income tax was withheld. The CFO of Fallen Bear Company, Jaime Vargas (telephone #605-555-8271, fax #605-555-8270, email address jvargas@fbc.com), signs and submits the form on the due date.

The Self-Employment Contributions Act (SECA)

On the Web

irs.gov/businesses/small-businesses-self-employed



The **Self-Employment Contributions Act of 1954** established that self-employed individuals must pay self-employment taxes (SE taxes). These taxes are very similar to Social Security and Medicare taxes, which aren't paid by self-employed individuals. SE taxes serve to ensure that self-employed individuals are taxed in a manner similar to standard employees.

As you have seen, an employee pays Social Security tax of 6.2% of taxable earnings, while the employer matches the same 6.2%. This results in total Social Security tax of 12.4% being remitted to the federal government. Similarly, for Medicare, 1.45% of taxable earnings are paid by both the employee and the employer, resulting in a total of 2.9% being remitted. Since a self-employed individual takes on the role of both employer and employee, self-employment taxes total 15.3% (12.4% + 2.9%) of **net self-employment income**.

Similar to Social Security tax, there is a taxable earnings threshold applied to the 12.4% portion of self-employment taxes. While the full 15.3% self-employment tax is levied on the first \$132,900 of net self-employment income (the same 2019 taxable earnings wage base as for Social Security tax), only the 2.9% Medicare portion of the self-employment tax rate is levied on net self-employment income above that level.

Additionally, there is an income floor below which self-employment taxes need not be paid. Self-employment taxes must be remitted by any individual whose net self-employment income totals \$400 or more for the year.

NOTE! Net self-employment income represents income after certain business expenses are subtracted.

If an individual is both self-employed and receives earnings that are subject to FICA taxes from a second job, that person must be sure to pay the full 15.3% tax on only the first \$132,900 earned. This threshold applies to all earnings in a single year, whether they are self-employment earnings or earnings from a second job that are subject to FICA taxes.

Similarly, an individual who is both self-employed and receives earnings that are subject to FICA taxes from a second job must combine these earnings to determine if the applicable Additional Medicare Tax threshold has been exceeded in a single year. The employee is subject to Additional Medicare Tax of 0.9% on all earnings that exceed the applicable threshold.

Statutory Nonemployees

Certain workers are considered to be self-employed by virtue of their professions. These individuals are referred to as **statutory nonemployees**, and they include direct sellers, real-estate agents, and companion sitters (who are not employees of a companion sitting placement service). For direct sellers and real-estate agents to be treated as statutory nonemployees, they must be compensated based on sales (not hours worked), and they must have a written contract that dictates that they are not employees.

Case in Point 5-6

Calculate Self-Employment Taxes

For each of the following individuals, calculate the applicable self-employment tax. Assume that each individual files tax returns under married filing jointly status.

1. Samuel Henner earns net self-employment income of \$97,200. He does not work a second job.

As Samuel's net self-employment income has not yet exceeded the \$132,900 threshold, the entire amount is subject to self-employment tax.

When the earnings of \$97,200 are multiplied by the 15.3% self-employment tax rate, the self-employment taxes are \$14,871.60.

2. Lisa Coleman earns net self-employment income of \$119,200. Aside from this self-employment, she works a second job from which she receives FICA taxable earnings of \$19,400.

Lisa's FICA taxable earnings from her second job must be considered when determining the portion of her earnings subject to the full 15.3% self-employment tax. When these FICA taxable earnings of \$19,400 are subtracted from the \$132,900 threshold, we find that \$113,500 is subject to the full 15.3% tax, resulting in taxes on these earnings of \$17,365.50.

The remaining \$5,700 of self-employment income (\$119,200 total self-employment income – \$113,500 determined above) is subject to only the 2.9% tax rate, resulting in taxes on these earnings of \$165.30. Therefore, total taxes owed are \$17,530.80 (\$17,365.50 + \$165.30).

3. Penelope Woods earns net self-employment income of \$136,400. Aside from this self-employment, she works a second job from which she receives FICA taxable earnings of \$23,900.

Penelope's FICA taxable earnings from her second job must be considered when determining the portion of her earnings subject to the full 15.3% self-employment tax. When these FICA taxable earnings of \$23,900 are subtracted from the \$132,900 threshold, we find that \$109,000 is subject to the full 15.3% tax, resulting in taxes on these earnings of \$16,667.

The remaining \$27,400 of self-employment income (\$136,400 total self-employment income – \$109,000 determined above) is subject to only the 2.9% tax rate, resulting in taxes on these earnings of \$794.60. Therefore, total taxes owed are \$17,471.60 (\$16,677 + \$794.60).

Self-Assessment

Complete the Self-Assessment as directed by your instructor, whether that is in the book, the Learning Resource Center (labyrinthlab.com/lrc), or your eLab course, if applicable.

True/False Questions

- | | | |
|--|-------------|--------------|
| 1. FUTA tax is paid solely by the employer. | <i>True</i> | <i>False</i> |
| 2. The credit for FUTA tax must equal the applicable SUTA tax rate for the employer. | <i>True</i> | <i>False</i> |
| 3. FUTA credit reductions are assessed as a result of individual states neglecting to repay federal loans in a timely manner. | <i>True</i> | <i>False</i> |
| 4. There are a few states in which SUTA tax is levied on both the employer and the employee. | <i>True</i> | <i>False</i> |
| 5. Employers who have experienced significant employee turnover can be levied SUTA tax as high as 25% of taxable earnings. | <i>True</i> | <i>False</i> |
| 6. For employers who do not have a track record with employees, a New Employer SUTA tax rate is assigned. | <i>True</i> | <i>False</i> |
| 7. It is possible for an employer to pay FUTA tax on a specific employee's pay, while not paying SUTA tax on the same employee's pay. | <i>True</i> | <i>False</i> |
| 8. For 2019 the employer's matching Social Security and Medicare tax may equal those taxes withheld from employee earnings, but will not always do so. | <i>True</i> | <i>False</i> |
| 9. An independent contractor is considered to be an employee of the business for which he/she performs work. | <i>True</i> | <i>False</i> |
| 10. The self-employment tax rate is the same as the combined employee and employer FICA tax rates. | <i>True</i> | <i>False</i> |

Multiple Choice Questions

11. The taxable earnings threshold over which FUTA tax is not levied is:
- \$7,000
 - \$132,900
 - \$200,000
 - \$250,000
12. The FUTA credit applicable to a non-credit-reduction state is:
- 3%
 - 3.6%
 - 5.4%
 - 6%

13. How much FUTA tax would an employer in a non-credit-reduction state owe if an employee has earned \$6,400 to date and has current period taxable pay of \$1,500?
- A. \$3.60
 - B. \$9
 - C. \$36
 - D. \$90
14. Which of the following is an accurate statement about SUTA tax?
- A. Every state designates a taxable earnings threshold below which SUTA tax is not levied.
 - B. SUTA tax paid by an employer is typically less than FUTA tax paid for the same period.
 - C. SUTA tax rates differ from one employer to another but do not change from year to year.
 - D. The SUTA tax rate is based on the number of layoffs that an employer has experienced.
15. Based on the range of possible SUTA tax rates and thresholds, which of the following circumstances could occur?
- A. An employee who has year-to-date earnings of \$50,600 pays 5.2% SUTA tax on the current period taxable pay.
 - B. An employee who has year-to-date earnings of \$21,400 pays 17.2% SUTA tax on the current period taxable pay.
 - C. An employee who has year-to-date earnings of \$26,300 pays 0% SUTA tax on the current period taxable pay.
 - D. An employee who has year-to-date earnings of \$4,300 pays 14.5% SUTA tax on the current period taxable pay.
16. Which of the following states does not levy SUTA tax on employees?
- A. South Dakota
 - B. Alaska
 - C. New Jersey
 - D. Pennsylvania
17. Which of the following employee taxes is matched by the employer?
- A. State unemployment tax
 - B. Federal income tax
 - C. Medicare tax
 - D. Federal unemployment tax
18. Currently the employer's Social Security tax:
- A. is greater than the employee's Social Security tax
 - B. is the same as the employee's Social Security tax
 - C. is less than the employee's Social Security tax
 - D. can be any of the above
19. Which of the following is accurate regarding self-employment tax?
- A. The taxable wage base (threshold) is the same as that for Social Security tax.
 - B. If an individual receives compensation from a business, he/she is not required to pay self-employment tax on net self-employment income.
 - C. Self-employment tax is designed such that the self-employed individual pays the equivalent of only the employee portion of FICA taxes.
 - D. Self-employment tax must be paid by all self-employed individuals, regardless of income level.

168 Payroll Accounting Chapter 5: Federal and State Unemployment Taxes

20. What is the self-employment tax rate levied on the first \$132,900 of 2019 net self-employment income?
- A. 2.9%
 - B. 12.4%
 - C. 15.3%
 - D. 18.2%

Practice Set A

The IRS forms and Excel templates needed for these assignments are included in the Student Exercise Files download for this course. If directed to do so, complete these assignments in Homework Grader.

PSa 5-1 Determine the Applicable FUTA Tax Rate

For each of the following businesses, determine the applicable FUTA tax rate for 2018 based on the locations listed below:

1. A business operating in Seattle, WA
2. A business operating in Charlotte, NC
3. A business operating in Sacramento, CA
4. A business operating in Bangor, ME
5. A business operating in the U.S. Virgin Islands

PSa 5-2 Determine the Taxable Earnings Subject to FUTA Tax

For each of the described pay periods, determine the taxable earnings subject to FUTA tax:

1. A business employs three individuals, whose taxable earnings to date (prior to the current pay period) are \$5,700, \$8,000, and \$1,000. During the current pay period, these employees earn \$1,800, \$3,140, and \$2,500, respectively.
2. A business employs two individuals, whose taxable earnings to date (prior to the current pay period) are \$2,400 and \$7,200. During the current pay period, these employees earn \$1,250 and \$750, respectively.
3. A business employs three individuals, whose taxable earnings to date (prior to the current pay period) are \$26,700, \$4,400, and \$6,850. During the current pay period, these employees earn \$2,320, \$2,550, and \$3,100, respectively.

PSa 5-3 Calculate FUTA Tax

For each of the following independent circumstances, calculate the FUTA tax owed by the employer:

1. An employer in Albany, NY, employs two individuals, whose taxable earnings to date (prior to the current pay period) are \$8,100 and \$6,200. During the current pay period, these employees earn \$750 and \$1,620, respectively.
2. An employer in Bloomington, IL, employs three individuals, whose taxable earnings to date (prior to the current pay period) are \$51,500, \$32,420, and \$7,550. During the current pay period, these employees earn \$1,800, \$2,250, and \$740, respectively.
3. An employer in the U.S. Virgin Islands employs two individuals, whose taxable earnings to date (prior to the current pay period) are \$920 and \$5,150. During the current pay period, these employees earn \$2,200 and \$3,000, respectively.
4. An employer in Essex, CT, employs three individuals, whose taxable earnings to date (prior to the current pay period) are \$7,000, \$6,100, and \$9,400. During the current pay period, these employees earn \$650, \$980, and \$1,100, respectively.

PSa 5-4 Calculate SUTA Tax

For each of the following independent circumstances, calculate the SUTA tax owed by the employer. Assume a SUTA tax rate of 3.4% and a taxable earnings threshold of \$8,500.

1. Hometown Bakery employs three workers who, as of the beginning of the current pay period, have earned \$16,200, \$7,150, and \$4,000. Calculate SUTA tax for the current pay period if these employees earn taxable pay of \$1,450, \$2,100, and \$960, respectively.
2. Electronics Outlet employs two workers who, as of the beginning of the current pay period, have earned \$8,400 and \$7,200. Calculate SUTA tax for the current pay period if these employees earn taxable pay of \$3,450 and \$2,250, respectively.
3. Delivery, Inc., employs 127 workers who, for the current pay period, earn total taxable pay of \$347,540. Of this amount, only \$31,400 is subject to SUTA tax, as this is the portion of individual employee earnings that does not exceed the \$8,500 threshold. Calculate SUTA tax based on these earnings.

PSa 5-5 Calculate FUTA and SUTA Tax

For each of the following independent circumstances, calculate both the FUTA and SUTA tax owed by the employer:

1. An employer in the U.S. Virgin Islands employs two individuals, whose taxable earnings to date (prior to the current pay period) are \$5,100 and \$6,900. During the current pay period, these employees earn \$1,700 and \$2,650, respectively. The applicable SUTA tax rate is 1.5%, and the U.S. Virgin Islands SUTA threshold is \$26,500.
2. An employer in Newark, NJ, employs three individuals, whose taxable earnings to date (prior to the current pay period) are \$26,900, \$32,300, and \$6,850. During the current pay period, these employees earn \$3,200, \$2,950, and \$1,620, respectively. The applicable SUTA tax rate is 3.4%, and the New Jersey SUTA threshold is \$34,400.
3. An employer in Cincinnati, OH, employs two individuals, whose taxable earnings to date (prior to the current pay period) are \$4,900 and \$8,200. During the current pay period, these employees earn \$2,800 and \$1,900, respectively. The applicable SUTA tax rate is 2.5%, and the Ohio SUTA threshold is \$9,500.
4. An employer in Juneau, AK, employs three individuals, whose taxable earnings to date (prior to the current pay period) are \$36,000, \$41,400, and \$5,200. During the current pay period, these employees earn \$3,600, \$4,200, and \$1,200, respectively. The applicable SUTA tax rate is 2.5%, and the Alaska SUTA threshold is \$39,900.

PSa 5-6 Record an Employer Payroll Tax Journal Entry

Based on the following figures for the most recent pay period, record the necessary journal entry to account for employer payroll taxes as of 1/18/2019:

Account Name	Amount
Medicare Tax Payable	\$31.90
State Unemployment Tax Payable	\$74.80
Social Security Tax Payable	\$136.40
Federal Unemployment Tax Payable	\$13.20

PSa 5-7 Complete Form 1099-MISC

Complete Form 1099-MISC for William Porter (SSN 222-22-2222), an independent contractor of Pronespeed, Inc., (6 Snowcap Lane, Jefferson City, MO 65101). William (who lives at 55 Rounding Place, Jefferson City, MO 65101) earns nonemployee compensation of \$13,400 during the year. Pronespeed, Inc., (Federal Tax Identification #99-9999999) does not use account numbers and does not report state data.

PSa 5-8 Complete Form 1096

Complete Form 1096 for Pronespeed, Inc., based on the information from PSa 5-7 and the following. In addition to William Porter's Form 1099-MISC, the company issued seven other 1099-MISC forms. Total compensation across these eight forms is \$101,400, on which no federal income tax was withheld. The controller of Pronespeed, Inc., William Mancuso (telephone #573-555-2320, fax #573-555-2321, email address wmancuso@PSI.com), signs and submits a paper version of the form on the due date.

PSa 5-9 Calculate Self-Employment Tax

For each of the following individuals, calculate the applicable self-employment tax. Assume that each individual files tax returns under married filing jointly status.

1. Annabelle Jefferson earns net self-employment income of \$43,500. She does not work a second job.
2. Alexander Ryan earns net self-employment income of \$115,000. He works a second job from which he receives FICA taxable earnings of \$48,500.
3. Morgan Cruise earns net self-employment income of \$221,000. She works a second job from which she receives FICA taxable earnings of \$108,200.

Practice Set B

The IRS forms and Excel templates needed for these assignments are included in the Student Exercise Files download for this course. If directed to do so, complete these assignments in Homework Grader.

PSb 5-1 Determine the Applicable FUTA Tax Rate

For each of the following businesses, determine the applicable FUTA tax rate for 2018 based on the locations listed below:

1. A business operating in the U.S. Virgin Islands
2. A business operating in Columbus, OH
3. A business operating in Austin, TX
4. A business operating in Oakland, CA
5. A business operating in Birmingham, AL

PSb 5-2 Determine the Taxable Earnings Subject to FUTA Tax

For each of the described pay periods, determine the taxable earnings subject to FUTA tax:

1. A business employs three individuals, whose taxable earnings to date (prior to the current pay period) are \$12,200, \$5,250, and \$3,000. During the current pay period, these employees earn \$2,400, \$2,000, and \$1,350, respectively.
2. A business employs two individuals, whose taxable earnings to date (prior to the current pay period) are \$3,000 and \$31,400. During the current pay period, these employees earn \$3,300 and \$1,450, respectively.
3. A business employs three individuals, whose taxable earnings to date (prior to the current pay period) are \$5,200, \$46,700, and \$500. During the current pay period, these employees earn \$2,100, \$1,140, and \$920, respectively.

PSb 5-3 Calculate FUTA Tax

For each of the following independent circumstances, calculate the FUTA tax owed by the employer:

1. An employer in Cleveland, OH, employs two individuals, whose taxable earnings to date (prior to the current pay period) are \$5,000 and \$12,000. During the current pay period, these employees earn \$1,800 and \$2,000, respectively.
2. An employer in Nesconset, NY, employs three individuals, whose taxable earnings to date (prior to the current pay period) are \$6,900, \$1,000, and \$24,200. During the current pay period, these employees earn \$2,400, \$1,750, and \$3,000, respectively.
3. An employer in the U.S. Virgin Islands employs two individuals, whose taxable earnings to date (prior to the current pay period) are \$8,500 and \$3,400. During the current pay period, these employees earn \$880 and \$675, respectively.
4. An employer in Cary, NC, employs three individuals, whose taxable earnings to date (prior to the current pay period) are \$5,900, \$8,900, and \$6,600. During the current pay period, these employees earn \$940, \$1,020, and \$850, respectively.

PSb 5-4 Calculate SUTA Tax

For each of the following independent circumstances, calculate the SUTA tax owed by the employer. Assume a SUTA tax rate of 3.4% and a taxable earnings threshold of \$8,500.

1. A-1 Framing employs three workers who, as of the beginning of the current pay period, have earned \$8,550, \$8,200, and \$7,400. Calculate SUTA tax for the current pay period if these employees earn taxable pay of \$1,000, \$1,350, and \$1,800, respectively.
2. Mrs. Fix-It Corp. employs two workers who, as of the beginning of the current pay period, have earned \$4,200 and \$6,500. Calculate SUTA tax for the current pay period if these employees earn taxable pay of \$2,700 and \$2,400, respectively.
3. Burger Bites Restaurant employs 51 workers who, for the current pay period, earn total taxable pay of \$87,450. Of this amount, only \$11,000 is subject to SUTA tax, as this is the portion of individual employee earnings that does not exceed the \$8,500 threshold. Calculate SUTA tax based on these earnings.

PSb 5-5 Calculate FUTA and SUTA Tax

For each of the following independent circumstances, calculate both the FUTA and SUTA tax owed by the employer:

1. An employer in Delaware City, DE, employs two individuals, whose taxable earnings to date (prior to the current pay period) are \$6,100 and \$8,800. During the current pay period, these employees earn \$1,450 and \$2,000, respectively. The applicable SUTA tax rate is 2.1%, and the Delaware SUTA threshold is \$16,500.
2. An employer in Bridgeport, CT, employs three individuals, whose taxable earnings to date (prior to the current pay period) are \$5,500, \$12,900, and \$14,200. During the current pay period, these employees earn \$2,200, \$1,950, and \$2,400, respectively. The applicable SUTA tax rate is 4.9%, and the Connecticut SUTA threshold is \$15,000.
3. An employer in the U.S. Virgin Islands employs two individuals, whose taxable earnings to date (prior to the current pay period) are \$1,420 and \$26,100. During the current pay period, these employees earn \$3,350 and \$1,700, respectively. The applicable SUTA tax rate is 3%, and the U.S. Virgin Islands SUTA threshold is \$26,500.
4. An employer in Durham, NC, employs three individuals, whose taxable earnings to date (prior to the current pay period) are \$6,000, \$21,700, and \$34,900. During the current pay period, these employees earn \$980, \$1,600, and \$1,150, respectively. The applicable SUTA tax rate is 1.2%, and the North Carolina SUTA threshold is \$24,300.

PSb 5-6 Record an Employer Payroll Tax Journal Entry

Based on the following figures for the most recent pay period, record the necessary journal entry to account for employer payroll taxes as of 6/28/2019:

Account Name	Amount
Social Security Tax Payable	\$217.00
Federal Unemployment Tax Payable	\$21.00
Medicare Tax Payable	\$50.75
State Unemployment Tax Payable	\$119.00

PSb 5-7 Complete Form 1099-MISC

Complete Form 1099-MISC for Emma Jamison (SSN 777-77-7777), an independent contractor of SingleStep Industries (993 Valley Court, Detroit, MI 48126). Emma (who lives at 12 Handsome Place, Detroit, MI 48126) earns nonemployee compensation of \$32,900 during the year. SingleStep Industries (Federal Tax Identification #88-8888888) does not use account numbers and does not report state data.

PSb 5-8 Complete Form 1096

Complete Form 1096 for SingleStep Industries, based on the information from PSb 5-7 and the following. In addition to Emma Jamison's Form 1099-MISC, the company issued one other Form 1099-MISC. Total compensation across these two forms is \$44,000, on which no federal income tax was withheld. The president of SingleStep Industries, George Borstein (telephone #313-555-8880, fax #313-555-8881, email address gborstein@sstep.com), signs and submits a paper version of the form on the due date.

PSb 5-9 Calculate Self-Employment Tax

For each of the following individuals, calculate the applicable self-employment tax. Assume that each individual files tax returns under married filing jointly status.

1. Allison Wilson earns net self-employment income of \$74,200. She does not work a second job.
2. Martin Hughes earns net self-employment income of \$152,000. He works a second job from which he receives FICA taxable earnings of \$100,300.
3. Elisa Grant earns net self-employment income of \$198,000. She works a second job from which she receives FICA taxable earnings of \$78,200.

Continuing Payroll Problem

The IRS forms and Excel templates needed for these assignments are included in the Student Exercise Files download for this course. If directed to do so, complete these assignments in Homework Grader.

CPP 5-1 Calculate and Record Employer Payroll Taxes

Calculate the FUTA and SUTA tax payable for a number of employees of TCLH Industries, a manufacturer of cleaning products. Conclude by recording the necessary journal entry for employer payroll taxes. As TCLH Industries operates in North Carolina, assume a SUTA tax rate of 1.2% and a taxable earnings threshold of \$24,300.

1. Calculate the employer's total FUTA and SUTA taxes. Current period taxable earnings for FUTA and SUTA taxes are the same as those for FICA taxes. Year-to-date taxable earnings for FUTA and SUTA taxes, prior to the current pay period, are as follows:
 - Zachary Fox: \$0
 - Calvin Bell: \$20,478.57
 - David Alexander: \$198,450
 - Michael Sierra: \$117,600
2. Record the journal entry to account for employer payroll taxes based on the totals in the payroll register and the above calculations. Book the entry on the date paychecks are distributed.

Critical Thinking

CT 5-1 Compare the Federal and State Unemployment Programs

The federal and state unemployment programs are designed to work in conjunction to ensure that all eligible workers receive appropriate unemployment benefits. Naturally, as part of this process, certain elements are handled by the federal government, while others are controlled by the individual states. In this exercise, you will use the Internet to research the manner in which the federal government and individual states divide responsibility for distributing unemployment benefits.

Begin by researching the manner in which unemployment benefits are distributed to workers. Continue by examining the elements of the program that are handled by the federal government and those responsibilities that typically fall to the individual states. Write a paragraph of at least five sentences in which you discuss what you have learned about the division of responsibilities in the unemployment program.

Submit your final file based on the guidelines provided by your instructor.

CT 5-2 Research Self-Employment Taxes

Self-employment taxes are levied to ensure that the equivalent of Social Security and Medicare taxes are paid by individuals who are self-employed. As you have seen, these taxes were established by the Self-Employment Contributions Act of 1954 (SECA). In this exercise, you will use the Internet to research both the historical evolution of SECA and the current impact of the act.

First research the components of SECA and the historical SECA tax rates. Then examine the primary objections to the act. Write a paragraph of at least five sentences in which you discuss the tax rate trend since the act was established and the arguments against this taxation. Then write whether you agree with the levying of SECA tax, and provide your reasoning.

Submit your final file based on the guidelines provided by your instructor.