



Payroll Accounting

A Practical, Real-World Approach | 6th Edition

Chapter 5: Federal and State Unemployment Taxes



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Learning Objectives

- After studying this chapter, you will be able to:
 - 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

Federal Unemployment Tax (FUTA)

- Federal unemployment tax (FUTA) is levied on the employer.
- It is based on the taxable earnings of employees.
- The government uses these taxes for unemployment compensation provided to out-of-work individuals.
- 6% is levied on the first \$7,000 of taxable wages.



Credit Reduction States

- Certain states may be subject to a credit reduction:

Credit Reduction; FUTA Rate	State/Territory
2.1%; 2.7%	California, U.S. Virgin Islands

- If a state receives a credit reduction, employers must pay higher FUTA.

Making FUTA Tax Payments

- These payments are usually remitted on a quarterly basis.
- They are paid on the final day of the first month after the end of the quarter.

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

State Unemployment Tax (SUTA)

- State unemployment tax (SUTA) is based on employees' taxable earnings and is levied on the employer.
- Three states (AK, NJ, and PA) also levy the SUTA tax on employees.
- The number of laid-off employees affects SUTA taxes.

***TIP!** Employers are assigned a SUTA tax rate based on employee turnover. If no track record exists, the employer is assigned a new employer SUTA tax rate.*



State Unemployment Tax (SUTA)—(cont.)

- SUTA tax rates and associated wage thresholds differ from state to state.
- SUTA Dumping Prevention Act of 2004
 - This requires the state to ensure prior employee turnover impacts the SUTA tax rate.
- A credit may be claimed for SUTA tax paid if an employee has worked in multiple states.

Matching Social Security and Medicare Tax

- The employer must withhold and pay an equal amount of Social Security and Medicare tax from employees.
- Taxes are expenses to employers.
- Taxes are based on the level of employee earnings.



Accounting for Payroll (Employer Portion)

■ Journal entries:

- The first entry records salaries expense and wages expense.
- The second entry records payroll tax expenses paid by the employer.
 - ◆ Credits to Social Security Tax Payable and Medicare Tax Payable are identical to those in the prior entry.



Nonemployee Compensation

- Independent contractors are workers who determine how the employer's work is to be completed.
- When an employer hires a independent contractor, it must complete the following forms:
 - Form W-9
 - Form 1099-MISC
 - Form 1096

Independent Contractors

- The following professionals frequently work as independent contractors:
 - Accountants
 - Lawyers
 - Doctors
 - Subcontractors
- If the employer cannot determine if the individual is an employee or an independent contractor, the IRS can decide.



Form W-9

- The employer must report withholding taxes but does not withhold the compensation from the contractor.
- The employer must obtain either the contractor's Social Security number or Employer Identification Number.
- The employer retains the completed Form W-9.

Form 1099-MISC

- The employer must report gross earnings but does not withhold any compensation from the contractor.
- The employer furnishes Form 1099-MISC to the independent contractor and the IRS.


<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	\$	2018 Form 1099-MISC	Copy 1 For State Tax Department
		2 Royalties	\$		
		3 Other income	\$		
PAYER'S TIN	RECIPIENT'S TIN	4 Federal income tax withheld	\$		
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		5 Fishing boat proceeds	\$	6 Medical and health care payments	\$
		7 Nonemployee compensation	\$	8 Substitute payments in lieu of dividends or interest	\$
		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	\$
Account number (see instructions)		FATCA filing requirement <input type="checkbox"/>	11	12	
13 Excess golden parachute payments		\$	14 Gross proceeds paid to an attorney	\$	
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

Form 1096

- This form summarizes all compensation paid to every independent contractor.

Do Not Staple 6969

Form 1096 Department of the Treasury Internal Revenue Service	Annual Summary and Transmittal of U.S. Information Returns	OMB No. 1545-0108 2018														
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 														
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-STC 50	1098 81	1098-C 78	1098-E 84	1098-F 03	1098-Q 74	1098-T 83	1098-A 80	1098-B 79	1098-C 85	1098-CAP 73	1098-DIV 91	1098-G 86	1098-INT 92	1098-K 10	1098-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-DID 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"/>	

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 ►

The Self-Employment Contributions Act (SECA)

- This was established for self-employed individuals.
- The net self-employment income equals the income after subtracting the business's expenses.
- The taxable earnings threshold applies.