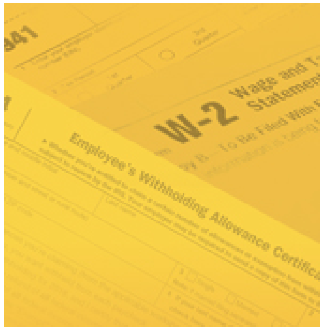

Payroll Accounting

A Practical, Real-World Approach | 6th Edition

Chapter 4: FICA Taxes and Voluntary Deductions

LABYRINTH
LEARNING™

Learning Objectives

- After studying this chapter, you will be able to:
  - Calculate Social Security tax
  - Calculate Medicare tax
  - Identify states in which state disability insurance is withheld
  - Apply various voluntary deductions
  - Record employee payroll journal entries

LABYRINTH LEARNING™

Social Security Tax

- Also known as OASDI
- Provides retirement benefits and financial support to employee's survivors and disabled employees
- Rate began at 1% and has been steadily increasing to the current rate of 6.20%

Year(s)	Social Security Tax Rate	Year(s)	Social Security Tax Rate
1974–1977	4.95%	1982–1983	5.40%
1978	5.05%	1984–1987	5.70%
1979–1980	5.08%	1988–1989	6.06%
1981	5.35%	1990–2016	6.20%

Social Security Wage Base

- The maximum threshold of year-to-date earnings on which Social Security tax is levied
- First taxable wage base was $3,000 – the current one is $128,400

Year(s)	Social Security Wage Base
2013	$113,700
2014	$117,000
2015–2016	$118,500
2017	$127,200
2018	$128,400

Only the first $128,400 in earnings will be taxed for Social Security.

Taxable Earnings for Social Security Tax

- Certain expenses are deducted from gross pay to arrive at taxable earnings.
- There is a three-step process to calculate Social Security tax:
  - Determine the current period's taxable earnings.
  - Add the current earnings to the year-to-date taxable earnings.
  - If the result is not above the threshold, multiply it by current rate.

LABYRINTH
LEARNING™

Medicare Tax

- The taxable earnings for Medicare tax are the same as for Social Security tax.
- The initial Medicare rate was 0.35% – the current one is 1.45%.

Year(s)	Medicare Tax Rate	Year(s)	Medicare Tax Rate
1966	0.35%	1978	1.00%
1967	0.50%	1979–1980	1.05%
1968–1972	0.60%	1981–1984	1.30%
1973	1.00%	1985	1.35%
1974–1977	0.90%	1986–2018	1.45%

Additional Medicare Tax

- Beginning in 2013, there is an additional 0.9% Medicare tax imposed on certain earnings.
- This is the result of the Patient Protection and Affordable Care Act.
- The threshold is based on the employee's filing status.

Filing Status	Earnings Threshold
Single/head of household/qualifying widower	$200,000
Married filing jointly	$250,000
Married filing separately	$125,000

Additional Withholding Tax Considerations

- Other amounts may be withheld from gross pay:
  - State disability insurance
  - Wage garnishment
  - Retirement plans
  - Cafeteria plans
  - Union dues
  - Charitable contributions

State Disability Insurance

- This is short-term benefits for those unable to work due to off-the-job circumstances.
- Certain states require disability insurance.
- Employees may be required to contribute toward insurance coverage.

Wage Garnishments

- These are done in compliance with a court order or other legal proceeding.
- The amount of a wage garnishment is limited.

NOTE! Wage-garnishment state regulations take precedence over federal regulations.

LABYRINTH LEARNING™

Contributing to Retirement Plans

- 401(k) plan
  - Tax-deferred
  - Employer contribution optional
- 403(b) plan
  - Available to certain employees at public education institutions and certain tax-exempt organizations

***TIP!* Both plans allow for catch-up withholdings (additional withholdings based on age and/or years of service).**

LABYRINTH LEARNING™

Contributing to Retirement Plans (cont.)

- SIMPLE IRA
  - For employees of small businesses (<100 employees)
  - Contribution limit is lower
  - Employer contribution is required
  - Deductions exempt from federal income tax withholding
- Payroll Deduction IRA
  - Usually used by self-employed individuals
  - Not exempt from federal income tax withholding
  - Employee may receive tax deduction on year-end return

The ERISA of 1974

- The Employee Retirement Income Security Act of 1974 (ERISA) regulates plans employers offer.
- The ERISA sets forth requirements for retirement plans:
  - How the plan is funded
  - Fiduciaries may be held accountable for breaches
  - Plan participation
  - Accumulation of benefits
  - Timeframe for when benefits become nonforfeitable

Cafeteria Plans

- Employer must offer choice of at least one taxable and one nontaxable option
- Nontaxable deductions can include:
  - Medical care reimbursements
  - Adoption assistance
  - Group-term life insurance
  - Health savings account
  - Flexible spending account (funds set aside for health care during the year)

LABYRINTH LEARNING™

Charity, Union Dues, and Insurance

- Charitable contributions are deducted from gross earnings and are then remitted directly to charity.
- For certain employees eligible to join a union, dues are withheld from gross earnings.
- Insurance premiums may be withheld and then remitted to the insurance company.

Completing the Payroll Register

- Completed payroll register includes:
  - Identified and calculated withholding amounts
  - Net pay (final figure)
  - Check number for each pay period

	Earnings							Deductions									
Pay Period Ending	Regular Hours Worked	Regular Pay Rate	Regular Wages	Overtime Hours Worked	Overtime Pay Rate	Overtime Wages	Gross Pay	Federal Withholding Tax	State Withholding Tax	Social Security Tax	Medicare Tax	Retirement Contribution	Life Insurance	Charitable Contribution	Additional Withholding	Check Number	Net Pay
12/2/18	35	$ 11.50	$402.50	0	n/a	$ -	$402.50	$ 23.00	$ 18.52	$ 24.96	$ 5.84	$ 32.20	$ -	$ 10.00	$ 0.60	1462	$287.38

Net Pay

Withholdings

Check Number

LABYRINTH LEARNING™

Accounting for Payroll (Employee Portion)

- An employer must record a journal entry for each element in a payroll register.
- Each payroll deduction is owed to a corresponding entity; for example:
  - Federal income tax withheld is immediately owed to the U.S. Government.
  - Charitable contributions withheld are immediately owed to the intended charity.

LABYRINTH LEARNING™