

5

Federal and State Unemployment Taxes

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/territories may be subject to a credit reduction:

2022 CREDIT REDUCTION STATES	
Credit Reduction, FUTA Rate	State or Territory
0.3%, 0.9%	California, Connecticut, Illinois, New York
3.6%, 4.2%	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.

FUTA PAYMENT DATES	
Quarter	Due Date
Q1 (Jan-Mar)	April 30
Q2 (Apr-Jun)	July 31
Q3 (Jul-Sep)	October 31
Q4 (Oct-Dec)	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.
- The SUTA Dumping Prevention Act of 2004 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 pay an amount equal to that withheld from employees for Social Security and Medicare tax.
- 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 (assuming no Additional Medicare Tax).

Nonemployee Compensation

- Independent contractors are workers who determine how the employer's work is to be completed.
- When an employer hires an independent contractor, the following forms are completed:
 - Form W-9
 - Form 1099-NEC
 - 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 employee submits the form, and the employer retains the completed Form W-9.

Form 1099-NEC

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

<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED				
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		OMB No. 1545-0116 Form 1099-NEC (Rev. January 2022) For calendar year 20 <input type="text"/>		Nonemployee Compensation
PAYER'S TIN	RECIPIENT'S TIN	1 Nonemployee compensation \$ <input type="text"/>		
RECIPIENT'S name		2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>		
Street address (including apt. no.)		3 <input type="text"/>		
City or town, state or province, country, and ZIP or foreign postal code		4 Federal income tax withheld \$ <input type="text"/>		
Account number (see instructions)		5 State tax withheld \$ <input type="text"/>	6 State/Payer's state no.	7 State income \$ <input type="text"/>
		\$ <input type="text"/>		\$ <input type="text"/>

Form **1099-NEC** (Rev. 1-2022) www.irs.gov/Form1099NEC 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		Annual Summary and Transmittal of U.S. Information Returns		OMB No. 1545-0108										
Department of the Treasury Internal Revenue Service						2023										
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.																
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
<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-LS 16	1099-LTC 93	1099-MISC 95	1099-NEC 71	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
<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"/>
5498-SA 27	<input type="checkbox"/>															
Return this entire page to the Internal Revenue Service. Photocopies are not acceptable. Send this form, with the copies of the form checked in box 6, to the IRS in a flat mailer (not folded).																
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.
- A taxable earnings threshold applies.