PAYROLL **ACCOUNTING**

5

Federal and State Unemployment Taxes

LABYRINTH LEARNING®

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

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:

2025 CREDIT REDUCTION STATES	
Credit Reduction, FUTA Rate	**State or Territory**
1.2%, 1.8%	California
4.5%, 5.1%	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

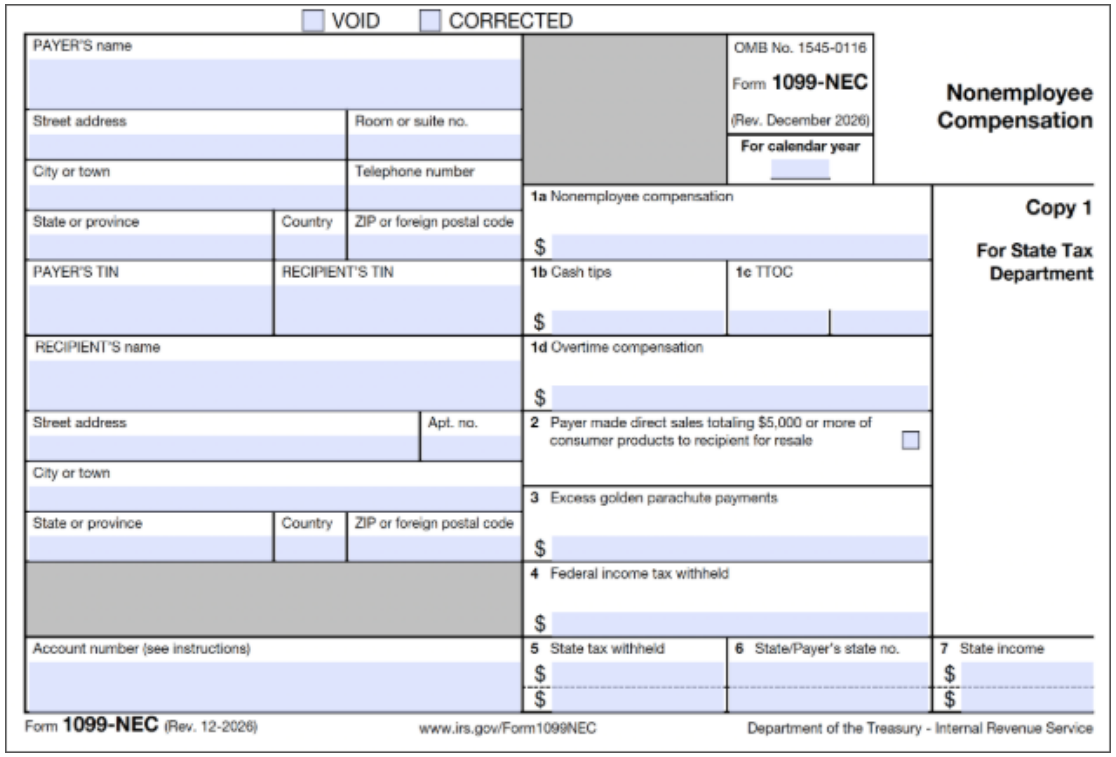
- The following professionals frequently work as independent contractors:
  - Accountants
  - Lawyers
  - Doctors
  - Subcontractors
- If the employer cannot determine if the individual is an employee or an independent contractor, the IRS can decide.

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.



VOID CORRECTED

PAYER'S name

Street address | Room or suite no.

City or town | Telephone number

State or province | Country | ZIP or foreign postal code

PAYER'S TIN | RECIPIENT'S TIN

RECIPIENT'S name

Street address | Apt. no.

City or town

State or province | Country | ZIP or foreign postal code

Account number (see instructions)

OMB No. 1545-0116

Form **1099-NEC**

(Rev. December 2026)

For calendar year

Nonemployee Compensation

Copy 1

For State Tax Department

1a Nonemployee compensation $

1b Cash tips $ | 1c TTOC

1d Overtime compensation $

2 Payer made direct sales totaling $5,000 or more of consumer products to recipient for resale ☐

3 Excess golden parachute payments $

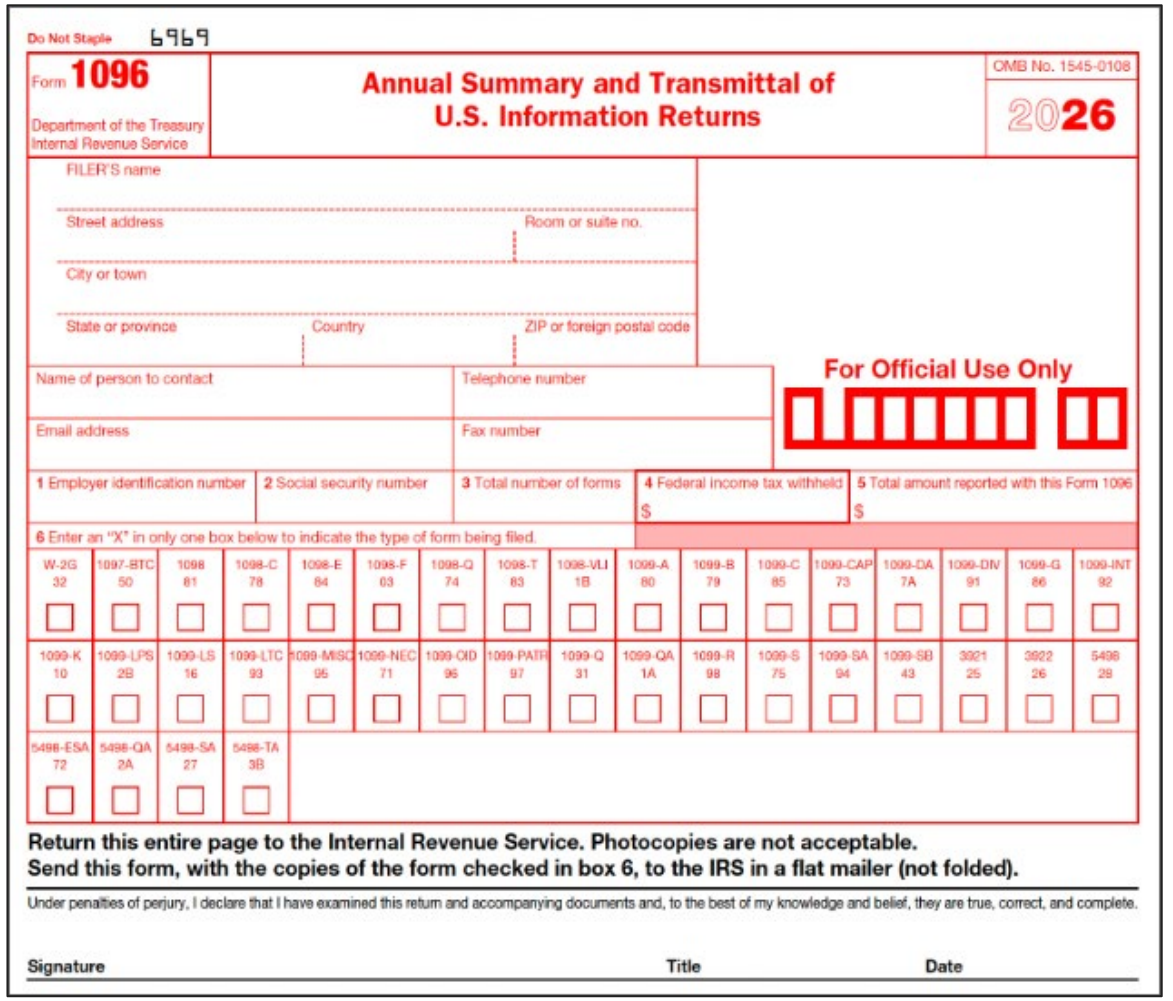
4 Federal income tax withheld $

5 State tax withheld $ $ | 6 State/Payer's state no. | 7 State income $ $

Form **1099-NEC** (Rev. 12-2026) 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**

Department of the Treasury
Internal Revenue Service

Annual Summary and Transmittal of U.S. Information Returns

OMB No. 1545-0108

2026

FILER'S name

Street address | Room or suite no.

City or town

State or province | Country | ZIP or foreign postal code

Name of person to contact | Telephone number

Email address | Fax number

For Official Use Only

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	1098-VLI 1B	1099-A 80	1099-B 79	1099-C 85	1099-CAP 73	1099-DA 7A	1099-DIV 91	1099-G 86	1099-INT 92
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1099-K 10	1099-LPS 2B	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
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5498-ESA 72	5498-QA 2A	5498-SA 27	5498-TA 3B
☐	☐	☐	☐

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.