Contents

Preface vii

CHAPTER 1
Processing a New Employee 1

The Employee Paystub 3
Summary of Tax Rates 4
The Fair Labor Standards Act 5
The Federal Minimum Wage 6
Calculating Overtime Wages 7
Child Labor Restrictions 7
Circular E and Form SS-4 8
Employer Identification Number 10
Hiring an Employee 13
The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 13
Form SS-5 14
Form W-4 15
Additional Hiring Considerations 21
The Immigration Reform and Control Act of 1986 21
General Payroll Topics 26
Workers' Compensation Insurance 26
Payroll Certifications 26
Payroll Services 27
Employee Earnings Record 27
Self-Assessment 29
Practice Set A 31
Practice Set B 33
Continuing Payroll Problem 35
Critical Thinking 36

CHAPTER 2
Calculating Employee Pay 37

Pay Periods and Workweeks 39
Pay Period Options 39
Defining the Workweek 40
Wage Determination Issues 41
The Equal Pay Act of 1963 41
State Minimum Wages 42
Time Cards 43
Salaries and Wages 46
Calculating Overtime Pay 46
Converting to Hourly Rates 48
Weekly Wage Conversions 48
Annual Salary Conversions 49
Commissions, Bonuses, and Incentive Plans 51
Paying Commissions 51
Awarding Bonuses 52
Offering Incentive Plans 52
Alternative Pay Considerations 54
Self-Employment Income 54
Tipped Employees 54
Piecework Systems 55
Payroll Register 57
Self-Assessment 62
Practice Set A 64
Practice Set B 68
Continuing Payroll Problem 72
Critical Thinking 73

CHAPTER 3
Federal and State Income Tax Withholding 75

Deductions from Employee Earnings 77
Mandatory Deductions 77
Voluntary Deductions 77
Distinguishing Between Gross Pay and Taxable Pay 78
Federal Income Tax Withholding 80
The Wage-Bracket Method (Pre-2020 Form W-4) 80
The Wage-Bracket Method (2020 or Later Form W-4) 83
The Percentage Method 88
The Percentage Method (Pre-2020 Form W-4) 88
The Percentage Method (2020 or Later Form W-4) 89
Other Federal Income Tax Withholding Considerations 94
State Income Tax Withholding 94
Local Income Tax Withholding 95
The Payroll Register 96
Self-Assessment 100
Practice Set A 103
Practice Set B 108
Continuing Payroll Problem 112
Critical Thinking 113

CHAPTER 4
FICA Taxes and Voluntary Deductions 115

Social Security Tax 117
The Social Security Wage Base 117
Taxable Earnings for Social Security Tax 117
Calculating Social Security Tax 118
Medicare Tax 120
Additional Medicare Tax 121
Additional Withholding Tax Considerations 123
State Disability Insurance 123
Wage Garnishments 123
Retirement Plans 124
Dependent Care Benefits 126
Charitable Contributions, Union Dues, and Insurance Premiums 126
Completing the Payroll Register 127
Accounting for Payroll (Employee Portion) 131
Self-Assessment 133
Practice Set A 135
Practice Set B 138
Continuing Payroll Problem 142
Critical Thinking 143

CHAPTER 5
Federal and State Unemployment Taxes 145

Federal Unemployment Tax (FUTA) 147
Credit Reduction States 147
Making FUTA Tax Payments 148
State Unemployment Tax (SUTA) 150
SUTA Experience Rating 151
Matching Social Security and Medicare Tax 152
Accounting for Payroll (Employer Portion) 153
Nonemployee Compensation 154
Independent Contractors 155
Form W-9 155
Form 1099-NEC 157
Form 1096 158
The Self-Employment Contributions Act (SECA) 161
Statutory Nonemployees 162
Self-Assessment 164
Practice Set A 166
Practice Set B 169
Continuing Payroll Problem 172
Critical Thinking 173

CHAPTER 6
Periodic and Year-End Payroll Reporting 175

Accounting for Payroll (Periodic Entries) 177
Unemployment Tax Payments 178
Voluntary Withholding Payments 178
Form 941 (Employer's Quarterly Federal Tax Return) 180
The Electronic Federal Tax Payment System 181
Form 941 Rounding Considerations 188
Quarterly State Payroll Forms 188
Form 940 (Employer's Annual Federal Unemployment Tax Return) 193
Form W-2 (Wage and Tax Statement) 200
Form W-3 (Transmittal of Wage and Tax Statements) 205
Self-Assessment 209
Practice Set A 211
Practice Set B 214
Continuing Payroll Problem 217
Critical Thinking 219

CHAPTER 7
Year-End Projects 221

One-Month Project: Ellipses Corp. 222
Three-Month Project: Ampersand, Inc. 225

CHAPTER 8
Daily Transactions Project 229

Full-Year Project: Parentheses Corp. 230

APPENDIX A
Increasing Efficiency with Spreadsheets and Formulas 291

Annual Salary Conversions 292
The Percentage Method (Pre-2020 Form W-4) 293
Calculating Social Security Tax 294

APPENDIX B
Annual Federal Payroll Tax Calendar 297

APPENDIX C
State Tax/Revenue Department Addresses and Websites 301

Glossary 305
Answer Keys 309
Index 315