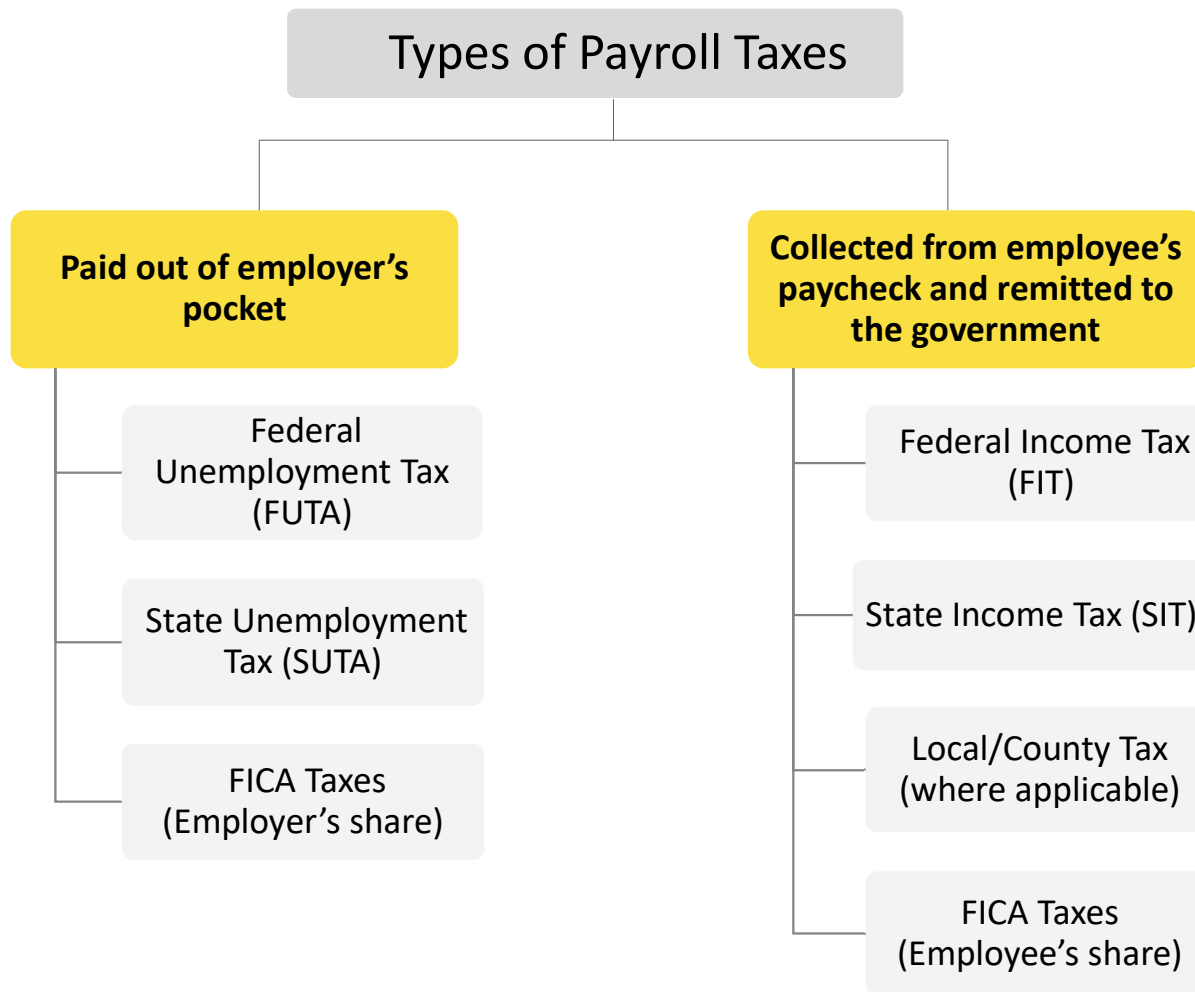




Basics of US Payroll Taxes



What is FUTA Tax?

FUTA requires that employers contribute to the federal unemployment pool which funds the federal government's oversight of each state's unemployment program.

FUTA Tax Rate

FUTA tax is 6% of the first \$7,000 (**FUTA Wage Base**) that an employer pays to each employee per year. Most states have a 5.4% credit; therefore, most employers only pay 0.6%.

Reporting FUTA Taxes

Form 940 is used to report employer's annual Federal Unemployment Tax (FUTA).
Form 940 is due by **January 31st**.
Only employers pay FUTA Tax.

FUTA Tax due dates

April 30
1st Quarter

July 31
2nd Quarter

October 31
3rd Quarter

January 31
4th Quarter

FUTA is
due
quarterly

FUTA Tax Calculation Example

For Example, a company has 12 employees who earn an annual taxable income of \$12,500. Use the following table to calculate the company's annual FUTA Tax, assuming that there is no FUTA tax credit available for the employer.

Particulars	Amounts
A. Total No. of Employees	12
B. Employees annual salary	\$12,500
C. Total Annual Wages (A x B)	\$150,000
D. FUTA Tax Rate	6%
E. FUTA Tax credit	Not applicable here
F. FUTA Wage Base	\$7,000
Company's annual FUTA Tax (A x D x F)	\$5,040

What is SUTA Tax?

The State Unemployment Tax Act ('SUTA') tax is a type of payroll tax that states require employers to pay. The money is used for state unemployment fund on behalf of their employees. SUTA was established to provide unemployment benefits to displaced workers.

SUTA Tax Rates

There is no standard SUTA rate for every employer. The state assigns each employer their own individual rate. An employer's rate may also be determined by Industry. Each state sets its own SUTA tax wage base which is subject to change each year along with SUTA tax rate.

Reporting SUTA Taxes?

Mostly, employer will make quarterly SUTA payments to the state. One can report the SUTA tax they have already paid using IRS **Form 940** in order to receive the tax credit (if applicable in the state)

How to Calculate SUTA Tax?

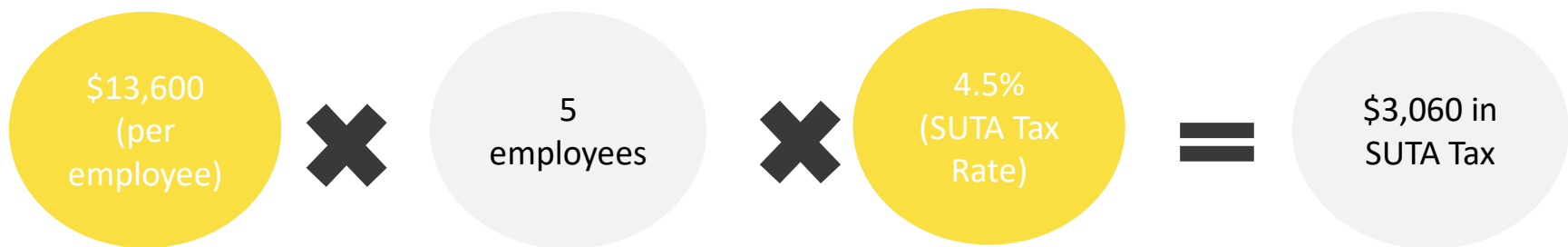
SUTA tax is calculated basis the following two things:

- Employer's 'taxable wage base' per employee
- Employer's state unemployment tax rate

SUTA Tax Calculation Example

For example, you run a business in Colorado with five employees. For 2021, the taxable wage base in Colorado is \$13,600 per employee. Let's assume your SUTA tax rate is 4.5%.

That means, in 2021 you will pay:



What is FICA Tax?

It stands for the Federal Insurance Contributions Act. FICA Tax is a payroll tax which funds Social Security and Medicare federal programs. This cost is shared equally by both employer and employee. Social Security includes old-age, survivors, and disability insurance taxes. Medicare includes hospital insurance tax.

FICA Tax Wage Base Limit

For employees earning above the wage base, the Social Security tax of 6.2% is capped to the wage base, i.e. no tax is withheld for social security component of FICA on the wage in excess of the wage base.

For 2021, the wage base for **Social Security** tax is **\$142,800**. There is no such wage base for the **Medicare** component.

FICA Tax Rates

The employer portion is **6.2%** for Social Security and **1.45%** for Medicare, an equal amount is collected from the employees to be remitted to the government. An **Additional Medicare Tax** of 0.9% is also levied on some high earning taxpayers.

Reporting FICA Taxes

FICA Taxes are deposited along with Federal Income taxes. **Form 941 or 944** is used to report FICA Taxes. Form 941 is a quarterly tax return form whereas Form 944 is an annual form. Form 944 is only used if there are instructions from IRS.

FICA Tax Calculation Example

For Example, you have two employees who earn below Social Security wage base and additional Medicare tax thresholds.

Use the table below to see how much you will need to withhold and contribute for each pay period.

Particulars	Employee 1	Employee 2
Taxable Wages for each period	\$1,500	\$2,500
A. Social Security Tax – Employee’s share (6.2%)	\$93	\$155
B. Medicare Tax – Employee’s share (1.45%)	\$21.75	\$36.25
C. Social Security Tax – Employer’s share (62.%)	\$93	\$155
D. Medicare Tax – Employer’s share (1.45%)	\$21.75	\$36.25
Total FICA taxes to be deposited (A+B+C+D)	\$229.5	\$382.5

What is Federal Income Tax?

This is the tax levied by Internal Revenue Service (IRS), on both earned (salaries, wages, tips, commissions) and unearned (interest, dividends) income. Income taxes are levied on both individuals (personal income taxes) and businesses (business and corporate income taxes)

Federal Income Tax Brackets

There are seven brackets: **10%, 12%, 22%, 24%, 32%, 35% and 37%**. These rates are in effect for 2021. These are marginal tax rates, which means that different portions of the income up to a specified amount will be taxed at a different rate.

Reporting Federal Income Tax

Federal Tax is reported on quarterly basis by filling out **Form 941**. The form is due by the last day of the month following the end of the quarter. You can report your deposits annually on Form 944 only if you receive written notification from the IRS. This form is due by January 31

Calculating Federal Income Tax

The amount to be withheld from an employee's paycheck is determined basis;

- Employee's Gross pay
- Form W4
- IRS income tax withholding tables. (IRS Publication 15)

Form W-4 is the document employees use to determine their federal income tax withholding.

What is State Income Tax?

State income tax ('SIT') is a type of state-mandated tax applied to a worker's wages. Employers are responsible for deducting SIT from an employee's gross wages and remitting it to the appropriate state tax agency.

State Income Tax Rates

States opt for one of three approaches to levy taxes on the residents;

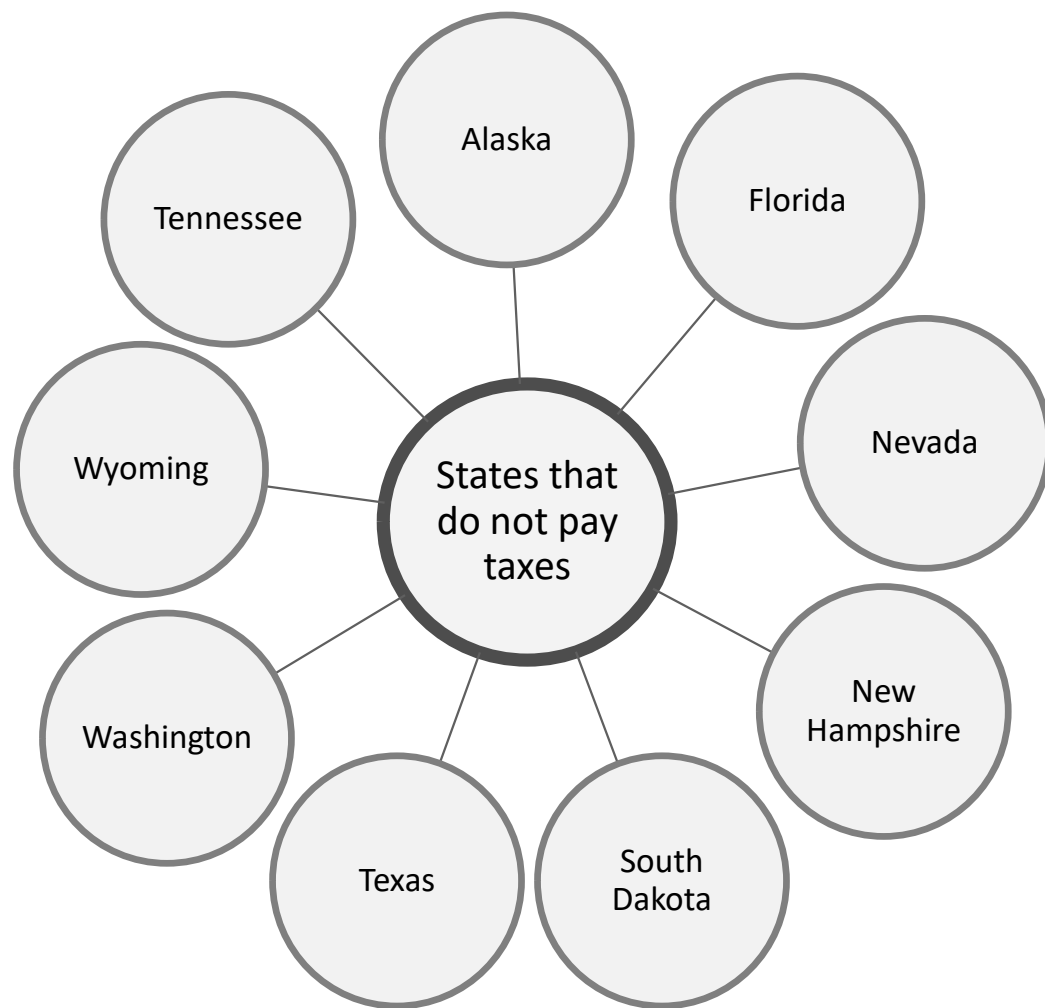
1. No income tax at all
2. Flat tax – Same rates are levied on all income
3. Progressive tax – People with higher taxable incomes pay higher state income tax rates.

State Income Tax by State

Depending on the location of your business, you may or may not be responsible for handling state income tax for your employees. Currently, forty-one states have state income taxes on wages earned from employment.

Reporting State Income Tax

Employers need to file reports (annual or quarterly) on state tax amounts withheld and amounts owed and paid.



These nine states have no income taxes. New Hampshire taxes investment income like, interest and dividends. Whereas, Tennessee has eliminated its tax on investment income in 2021.

What is Local Income Tax

Local governments in several states impose a local income tax. If the local income tax is a withholding tax, then employer is required to withhold it from employee wages. Or if the local income tax is an employer tax, then employer must pay it. Mostly, local taxes fund local programs and communities.

Reporting Local Income Tax

Once an employer withhold local taxes, he needs to remit them. Often, local taxes are due quarterly. One must check with their local taxing agency to find out when they need to deposit local taxes.

Local Income Tax Rates

Local tax rates and rules vary by locality. A local income tax rate can be a flat rate or a progressive rate. Some localities may also require workers to pay a fixed amount per paycheck, regardless of how much they make (e.g., \$20 for local tax for each pay period).

Form W-2

A **W-2 Form** is a report of all employee income and taxes withheld for the year. This is needed by the employees to file their income taxes. The employers are required to send the W-2 to each employee by January 31st of the following year.

Thank You.

