

Chapter 13
Payroll Accounting, Taxes, and Reports

- **The payroll register and employee earnings records provide all the payroll information needed to prepare a payroll and payroll tax reports. Journal entries are made to record the payment of the payroll and the employer payroll taxes. In addition, various quarterly and annual payroll tax reports are required to report the payment of payroll taxes.**

13-1 Recording a Payroll

- A. Information for journalizing a payroll is taken from the payroll register.
- B. The totals of the Earnings Total column, each deduction column, and the Net Pay column are used. The other column totals are not used.
- C. See T-accounts on Page 370 for the summary of the journal entry.
 - 1. When recording the payroll, the account debited is Salary Expense.
 - 2. When recording the payroll, the Federal Income Tax column total is recorded as a credit to Employee Income Tax Payable.
 - 3. When recording the payroll, the Social Security Tax column total is recorded as a credit to Social Security Tax Payable.
 - 4. When recording the payroll, the Medicare Tax column total is recorded as a credit to Medicare Tax Payable.
 - 5. When recording the payroll, the Health Insurance column total is recorded as a credit to Health Insurance Premiums Payable.
 - 6. When recording the payroll, the amount for U S Savings Bonds in the Other column is recorded as a credit to U. S. Savings Bonds Payable.
 - 7. When recording the payroll, the amount for United Way in the Other column is recorded as a credit to United Way Donations Payable.
 - 8. When recording the payroll, the Net Pay column total is recorded as a credit to Cash.
- D. Journal entry for payment of a payroll – see Page 371.

- **Work on questions, Work Together, and On Your Own**

13-2 Recording Employer Payroll Taxes

- A. In addition to withholding taxes from the employee checks and sending it in to the government, employers must also pay their own payroll taxes into the government.
- B. Most employers must pay four taxes: employer social security tax, Medicare tax, federal unemployment tax, and state unemployment tax.
 - 1. Social security tax and Medicare tax are the only taxes that both employees and employer pay.
 - a. The employer pays the same amount that employees pay.
 - b. Congress sets the social security and Medicare tax rates and may change them periodically.
 - c. In this book, social security taxes are paid at 6.2% up to a maximum of \$87,000 accumulated earnings for each employee. Medicare taxes are paid at 1.45% of the total employee earnings (there is no tax base for Medicare).
 - 2. Federal unemployment insurance laws require employers to pay taxes for unemployment compensation.
 - a. The state unemployment tax actually pays workers when they are unemployed.
 - b. **Federal unemployment tax** – A federal tax used for state and federal administrative expenses of the unemployment program.
 - c. **State unemployment tax** – A state tax used to pay benefits to unemployed workers.
 - d. In this book, federal unemployment taxes are paid at .8% up to a maximum of \$7,000 accumulated earnings for each employee. State unemployment taxes are paid at 5.4% up to \$7,000 accumulated earnings for each employee.
 - e. Example of how to find Unemployment Taxable Earnings – see Page 375.
- C. Journal entry for employer payroll taxes – see Page 376.

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13-3 Reporting Withholding and Payroll Taxes

- A. Each employer who withholds income tax, social security tax, and Medicare tax from employee earnings must furnish each employee with an annual report of these withholdings. This report is prepared on the Internal Revenue Service Form W-2 (Wage and Tax Statement).
1. Example of a W-2 form – see Page 378.
 2. This form must be furnished to each employee by January 31 of the next year. (If an employee ends payment sometime during the year, the W-2 must be sent within 30 days following the last day of employment.)
 3. Four copies are prepared for each employee. Only Copies B and C are given to the employee to include with their income tax returns. Copy A is sent by the employer to the Social Security Administration. Copy D is kept for the business's records.
 4. In states that also have a state income tax, the business must prepare additional copies of the W-2 form.
- B. Each employer is required by law to periodically report the payroll taxes withheld from employee salaries and the employer payroll taxes due the government. Some reports are submitted quarterly and some annually.
1. Employer's Quarterly Federal Tax Return
 - a. Example of Employer's Quarterly Federal Tax Return – see Page 379.
 - b. Steps in preparing Employer's Quarter Federal Tax Return – see Page 380.
 2. Form W-3, Transmittal of Wage and Tax Statements, is sent to the Social Security Administration by February 28 of each year.
 - a. Attached to Form W-3 is Copy A of each employee's W-2 form.
 - b. Employers with more than 250 employees must send the information to the IRS in computer files rather than the actual Forms W-2 and W-3.
 - c. Example of W-3 form – see Page 381.

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13-4 Paying Withholding and Payroll Taxes

- A. Paying the Liability for Employee Income Tax, Social Security Tax, and Medicare Tax
1. Employers must periodically pay to the federal, state, and local governments all payroll taxes withheld from employee earnings as well as the employer payroll taxes.
 2. The frequency of payments is determined by the **amount owed**.
 - a. For employees' income tax, social security tax and Medicare, frequency is determined by the total amount of tax paid each year.
 - (1) If the total amount paid in the previous **four quarters** – also called the **lookback period** is **\$50,000 or less**, a business is classified as a **monthly schedule depositor** and must pay the total amount due to an authorized financial institution by the **15th of the following month** and must be accompanied by Form 8109, Federal Tax Deposit Coupon (see Page 384).
 - (2) If total amount paid in the previous four quarters is **more than \$50,000**, a business is classified as **semiweekly** and must deposit amount accumulated on salary payments made on **Saturday, Sunday, Monday, or Tuesday by the following Friday**. For salary payments made on Wednesday, Thursday, or Friday, **payment must be made by the following Wednesday**. Payments must be made through an authorized agent to the IRS by Electronic Federal Tax Payment System (EFTPS).
 - (3) Two exceptions to the standard tax payment schedules:
 - (a) **If less than \$500 tax liability is accumulated during a three-month quarter, the deposit may be paid at the end of the month following the end of the quarter.**
 - (b) **If a tax liability of \$100,000 or more is accumulated on any day, the amount must be deposited on the next banking day.**
 - (4) Hobby Shack is classified as a monthly depositor. Therefore, payroll taxes are deposited with a local authorized financial institution by the 15th day of the following month accompanied by Form 8109.
 - (a) The type of tax is indicated by marking the 941 circle.
 - (b) The calendar quarter is identified on the right side of the form.

3. When journalizing a payment of the liability for Employee income tax, social security tax, and Medicare tax, the debit part of the entry is each of the tax liabilities (Employee Income Tax Payable, Social Security Tax Payable and Medicare Tax Payable) and the credit part of the entry is Cash.
 4. Journal entry for payment of these liabilities – see Page 385.
- B. Paying the Liability for federal unemployment insurance

1. This must be paid by the end of the month following each quarter if the liability amount is more than \$100.
2. All unemployment tax liabilities outstanding at the end of a calendar year should be paid even if the amount is less than \$100.
3. Federal unemployment tax is paid to the federal government by sending the check to an authorized bank and must be accompanied by Form 8109.
 - a. The type of tax is indicated by marking the 940 circle.
 - b. The calendar quarter is identified on the right side of the form.
4. When journalizing a payment of the liability for federal unemployment tax, Unemployment Tax Payable – Federal is debited and Cash is credited.
5. Journal entry for payment of federal unemployment tax – see Page 387.

C. Paying the liability for state unemployment tax

1. State requirements for payment of this liability vary by state, but most states require payment during the month following each calendar year.
2. When journalizing a payment of the liability for state unemployment tax, Unemployment Tax Payable – State is debited and Cash is credited.
3. Journal entry for payment of state unemployment tax – see Page 387.

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– **Application Problems**