



**Internal Revenue Service**  
**Small Business and Self-Employed**  
**Taxpayer Education and Communication**



# **Tax Information for Small Businesses**

*Consider it Done*



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## Topics of Discussion

- Securing Employer Identification Number (EIN)
- Hiring Employees
- Withholding Requirements
- Depositing Requirements
- Reporting Requirements



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## “DO YOU NEED AN EIN?”

- Pay wages to employees
- Required to withhold taxes for non-wage payments
- Self-employed retirement plan
- Operate as a corporation or partnership
- File Employment, Excise, Fiduciary or
- Alcohol, Tobacco and Firearm Tax Returns



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## Employer Identification Number (EIN)

- FORM SS-4
- TELE-TIN: (800) 829-4933
- FAX NUMBER: For area number see SS-4 Instructions
- EIN ONLINE: [www.irs.gov](http://www.irs.gov)



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## Information Forms

- Form W-2, Wage and Tax Statement
- Form W-3, Transmittal of Wage and Tax Statements
- Form 1099-MISC, Miscellaneous Income
- Form 1096, Annual Summary and transmittal of U.S. Information returns



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# Hiring Employees



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## Hiring Employees

- Form I-9, Employment Eligibility Verification  
1-800-870-3676  
[www.bcis.gov](http://www.bcis.gov)
- Report new hires to State  
(Office of Child Support Enforcement)  
1- 202-401-9267  
[www.acf.dhhs.gov/programs/cse/newhire](http://www.acf.dhhs.gov/programs/cse/newhire)



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## Withholding Requirement

- Federal Income Tax
- Withhold based upon employee's Form W-4
- See Publication 15 for Tax Withholding Tables





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## Withholding Requirement:

### Federal Insurance Contribution Act (FICA)

- Social Security Tax
  - Employee and Employer rate each is 6.2% (Total 12.4%)
  - See Pub 15 for current year Wage Base Limit
- Medicare Tax
  - Employee and Employer rate each is 1.45% (Total 2.9%)
  - No wage base limit



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## W-4 Exercise

- Jack Hammer completed Form W-4 indicating that he is married and claims 2 withholding allowances.
- Jack was paid \$800.00 for a bi-weekly period.
  - What is the amount of income tax to be withheld?
  - Social Security?
  - Medicare?
  - What is the amount his employer is required to match?



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## Advanced Earned Income Credit (AEIC)

- Form W-5, Earned Income Credit Advance Payment Certificate (required annually)
  - Annual Wage Limit (See Current Year Pub 15)
  - Advanced EIC payment limit (See Current Year Pub 15)
  - Qualifying Child



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## AEIC (cont'd)

- Tax Deposit Amount Reduced by Amount of Advanced EIC
- Form 941: Amount of Advanced EIC entered on line 17 and subtracted from total taxes
- Line 17 or Schedule B reflects tax less advanced payments.



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## AEIC (con't)

### Payment Methods For AEIC

- Wage Bracket Method
- Percentage Method

(Publication 15 )



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## AEIC Computation

- Penny Nails provided her employer with a W-5 requesting Advance Earned Income Credit payment. She has a qualifying child, she will file a joint return, and her spouse has not filed a Form W-5. Her W-4 shows married with 2 exemptions.
- Mrs. Nails has gross wages of \$525.00 biweekly. What is the amount of her AEIC payment using the Wage Bracket Method?
- (Publication 15)



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## AEIC Required Notice To Employees

1. Copy B of W-2
2. IRS Notice 797  
OR
3. Your Own Statement



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## Deposit Requirements 941 Liability

- Monthly and semiweekly deposit schedules are determined based upon the total tax liability you reported during four-quarter look-back period
- Must deposit all withheld taxes (including employer's portion) less any advance earned income credit
- Look-back period is most recent four-quarter period beginning July 1st and ending June 30th

(2004 look-back period is 7/1/2002 thru 6-30-2003)





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## Monthly Depositor

- Tax liability less than \$50,000 in look-back period
- New employers
- Deposits due by the 15th of the following month
- If total liability for quarter is less than \$2500, payment may be made with quarterly tax return



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## Semiweekly Depositor

- Tax liability more than \$50,000 in look-back period
- For payments made on Wednesday, Thursday or Friday - deposit by the following Wednesday
- For payments made on Saturday, Sunday, Monday or Tuesday - deposit by the following Friday



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## \$100,000 Next-Day Deposit Rule

- Accumulated liabilities of \$100,000 or more: Must deposit on the next business day after payments to employees.
- Monthly depositor becomes semiweekly depositor for rest of calendar year and following calendar year when \$100,000 liability is accumulated on any given day.



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## Reporting Requirements Completion of Form 941

- Report withheld income tax, advance EIC, Social Security and Medicare taxes
- Due quarterly by the last day of the month, which follows the end of the quarter
- All taxes deposited when due, then you have 10 additional days from due date to file return (Example: 1st Quarter 941 Return due by April 30; all deposits made timely, return due by 5/10)



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## Completing Form 941

- Mr. Sam Sheetrock owns Sheetrock Builder's Inc. He has 20 employees.
- He is a semiweekly depositor and has made all of his deposits timely.



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## Sheetrock Inc Payroll Info

| Pay Date      | Gross Wages       | Social Security Withheld* | Medicare Withheld*  | Income Tax Withheld | AEIC Payments |
|---------------|-------------------|---------------------------|---------------------|---------------------|---------------|
| 10/4          | \$ 30,025         | \$ 1,861.55               | \$ 435.36           | \$ 5,980            | \$ 45         |
| 10/18         | 29,826            | 1,849.12                  | 432.48              | 5,726               | 36            |
| 11/1          | 27,500            | 1,705.00                  | 398.75              | 5,335               | 28            |
| 11/15         | 28,845            | 1,788.39                  | 418.25              | 5,576               | 14            |
| 11/29         | 26,214            | 1,625.27                  | 380.10              | 5,433               | 20            |
| 12/13         | 30,025            | 1,861.55                  | 435.36              | 5,980               | 45            |
| 12/27         | 30,025            | 1,861.55                  | 435.36              | 5,980               | 45            |
| <b>Totals</b> | <b>\$ 202,460</b> | <b>\$ 12,552.43*</b>      | <b>\$ 2,935.66*</b> | <b>\$ 40,010</b>    | <b>\$ 233</b> |

(\*Employer must match)



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# Sheetrock Inc Payroll Info

- Complete Forms 941 and Schedule B using current year tax withholding requirements and forms.



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## Reporting Requirements: Form 940

- Federal/State Dual System
- Credit allowed for State unemployment
  - tax paid timely
- Return due annually on January 31st  
(All taxes deposited when due, then you have 10 additional days from due date to file return)





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## Are you a FUTA Employer?

- Paid \$1500 or more of wages in any quarter (other than farm or household workers)

OR

- Had one or more employees for at least some part of a day in any 20 or more different calendar weeks in the current or prior year.



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## FUTA Tax Rate

- FUTA tax rate: 6.2%
- Maximum State credit rate: 5.4%
- FUTA rate after State credit: 0.8% (.008)
- Applies to first \$7,000 in wages paid to each employee each year



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## Completing Form 940

Mr. I. R. Builder is a contractor and has 3 employees.

He has a state experience rate of 2.7%. He only pays unemployment taxes to one state. He paid all of his state unemployment taxes timely and all his wages that were taxable for FUTA were also taxable for his State's unemployment tax.

Which form will he be required to file?



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## FUTA TAX INFO

| Employee              | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Total                       |
|-----------------------|-------------|-------------|-------------|-------------|-----------------------------|
| J Hammer              | \$5600      | \$4800      | \$5600      | \$4800      | \$20,800                    |
| T Saw                 | \$5600      | \$4800      | \$5600      | \$4800      | \$20,800                    |
| P Nails               | \$3675      | \$3150      | \$3675      | \$3150      | \$13,650                    |
| Total                 |             |             |             |             | \$55,250                    |
| Excess over<br>\$7000 |             |             |             |             | <u>- 21,000</u><br>\$34,250 |



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# FUTA TAX INFO

- Complete Form 940EZ using current year information.

**Form 940-EZ** Employer's Annual Federal Unemployment (FUTA) Tax Return **OMB No. 1545-0047**

Department of the Treasury Internal Revenue Service (03) See separate instructions for Form 940-EZ for information on completing this form. **2002**

Name (do not check if not applicable) \_\_\_\_\_ Calendar year \_\_\_\_\_  
**1 R. Employer**  
Trade name, if any \_\_\_\_\_  
**Build It Your Way**  
Address and ZIP code \_\_\_\_\_  
568 Construction Way, Natville, AL 36789  
Employer identification number \_\_\_\_\_  
111234567

Answer the questions under **Who May Use Form 940-EZ** on page 2. If you cannot use Form 940-EZ, you must use Form 940.  
A. Enter the amount of contributions paid to your state unemployment fund (see separate instructions) ..... **649.00**  
B. (1) Enter the name of the state where you have to pay contributions ..... **Alabama**  
(2) Enter your state reporting number or otherwise use state unemployment tax return # ..... **55555**

**Part I Taxable Wages and FUTA Tax**

|   |   |       |
|---|---|-------|
| 1 Total payments (including payments shown on lines 2 and 3) during the calendar year for services of employees   | 1 | 55250 |
| 2 Exempt payments. Explain all exempt payments, attaching additional sheets if necessary  | 2 |       |
| 3 Payments of more than \$1,000 for services. Enter only amounts over the first \$1,000 paid to each employee (see separate instructions)                           | 3 | 34250 |
| 4 Add lines 2 and 3   | 4 | 34250 |
| 5 Total taxable wages. Subtract line 4 from line 1  | 5 | 21000 |
| 6 FUTA tax. Multiply the wages on line 5 by .008 and enter here. If the result is over \$100, also complete Part II   | 6 | 168   |
| 7 Total FUTA tax deposited for the year, including any overpayment applied from a prior year  | 7 | 168   |
| 8 Balance due. Subtract line 7 from line 6. Pay to the United States Treasury. If you owe more than \$100, see <b>Depositing FUTA tax</b> in separate instructions. | 8 | 0     |
| 9 Overpayment (Subtract from 8 from line 7). Check if it is to be <input type="checkbox"/> Applied to next return or <input type="checkbox"/> Refunded              | 9 |       |

**Part II Record of Quarterly Federal Unemployment Tax Liability** (Do not include state liability). Complete only if line 8 is over \$100.

| Quarter               | First 3 mos. 1 | Second 3 mos. 2 | Third 3 mos. 3 | Fourth 3 mos. 4 | Total for year |
|-----------------------|----------------|-----------------|----------------|-----------------|----------------|
| Liability for quarter | 42             | 42              | 42             | 42              | 168            |

**Third Party Designation** Do you want to allow another person to obtain this return with the IRS (see instructions page 9)?  Yes. Complete the following.  No

Designee's name \_\_\_\_\_ Title \_\_\_\_\_ Personal identification number (PIN) \_\_\_\_\_

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete, and that no part of any payment made to a state unemployment fund claimed as a credit here, or is to be deducted from the payments to employees.

Signature \_\_\_\_\_ Title (Owner, etc.) \_\_\_\_\_ Owner Date \_\_\_\_\_

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. **DETACH HERE** Cat. No. 33683G Form 940-EZ (2002)

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**Form 940-EZ(V)** Form 940-EZ Payment Voucher **OMB No. 1545-0047**

Use this voucher only when making a payment with your return. **2002**

Complete lines 1, 2, and 3. Do not send cash, and do not make your payment to this voucher. Make your check or money order payable to the United States Treasury. Be sure to enter your employer identification number, Form 940-EZ, and "2002" on your payment.

1 Enter your employer identification number \_\_\_\_\_ 2 Enter the amount of your payment. Dollars \_\_\_\_\_ Cents \_\_\_\_\_

3 I am your business sure individual sure for sole proprietors.  
Enter your address \_\_\_\_\_  
Enter your city, state, and ZIP code \_\_\_\_\_



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## Depositing Requirements: FUTA Liability

- FUTA liability less than \$100:
  - Make deposit or pay with 940 tax return by
  - January 31.
- FUTA liability more than \$100 in any calendar quarter:
  - Deposit FUTA tax by the last day of the following month after quarter ends.



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## Deposit Penalties Asserted for:

- Late deposits
- Deposits paid directly to IRS or with a tax return
- Deposits made to an unauthorized financial institution
- Deposits required but not deposited using the Electronic Federal Tax Payment System (EFTPS)



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## Penalties and Types (cont'd)

- Trust Fund Recovery Penalty
- Failure to File Tax Returns
- Failure to Pay Taxes after Notice & demand
- Failure to File Information Returns
- Failure to Supply Taxpayer Identifying Number





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## 941 & 940 E-File Employment Tax

Options for Filing:

1. 941 TeleFile
2. 941 & 940 On-Line Filing
3. 941 & 940 E-file



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## 941TeleFile

- To Participate, a business must
  - be pre-selected
  - receive a TeleFile Tax Package as part of 941 package mailing
  - be a monthly depositor (\$10k or less tax liability)
  - have been in business for the previous 12 months
  - have a breakeven, overpayment or balance due of \$1000 or less



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## 941TeleFile (cont'd)

- To participate, a business must
  - have no schedules or attachments
  - have only fractions of cents adjustments
  - have no changes to entity
  - not be a seasonal filer
  - fill in tax record, call TeleFile toll free, keep tax record for business files



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## 941 and 940 On-Line Filing

- The IRS On-Line Filing Program for [Form 941](#) and [Form 940](#) is available to business filers.
- Allows business filers to participate using their personal computer, modem, and off-the-shelf or web-based software to prepare returns



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## 941 and 940 On-Line Filing

- The on-line program, which is a Web-based Internet system, allows business filers to prepare, sign and file Form 941, Employer's Quarterly Federal Tax Return and Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return, using an Approved IRS e-file for Business Provider also known as a third-party transmitter



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## 941 and 940 On-Line Filing

### Where Can I find a list of Providers?

- Visit [www.irs.gov/efile](http://www.irs.gov/efile) and access the [Approved IRS e-file for Business Providers](#) page as well as the [IRS e-file Business Partners](#) page for a listing of companies that offer IRS e-file for Business products and services.



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## 941 and 940 On-Line Filing

- Business filers must apply for a Personal Identification Number (PIN) by completing the electronic Letter of Application (LOA) online via the Web to register through an "Approved IRS e-file for Business Provider" (third-party transmitter) of their choice.
- The third-party transmitter will batch and electronically transmit the LOA to the Austin Submission Processing Center (AUSPC).
- Upon IRS approval of the business filer's electronic LOA, the IRS will mail a Personal Identification Number (PIN) to the business filer within 3 to 5 business days. The PIN is used to electronically sign an electronically filed return in lieu of the business filer's signature.



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## Benefits of 941 and 940 On-Line

- Convenient
  - It's paperless!
  - Electronic acknowledgment within 48 hours
  - Tax prep work is automated with return prep software that performs calculations and highlights needed forms and schedules
- Fast
  - Information is quickly available to IRS Customer Service sites
  - Processing time is reduced to one week or less
- Accurate
  - Fewer risks of transcription errors
  - Error rates of less than one percent
  - Safe
  - Tax Information is Secure
  - Only authorized users have access to the system





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# **941 & 940 E-file**

Allows business filers to use a payroll service provider to file 941 & 940 returns electronically



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## HOW TO DEPOSIT

- Federal Tax Deposit Coupon (FTD)
- Electronic Federal Tax Payment System (EFTPS )



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## FTD Coupons

- Form 8109
- Authorized Financial Institution
- Deposit Timely



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# **Electronic Federal Tax Payment System**

EFTPS is an electronic tax payment system sponsored by the U.S. Department of the Treasury designed with busy taxpayers in mind.



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## EFTPS Features:

- Available 24 hours per day
- 7 days a week
- Various payment options
- Payment scheduling
- Security
- Input verification
- EFT/Acknowledgement number



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# **EFTPS Payment Options**

- EFTPS-Direct
- EFTPS Through a Financial Institution
- Same Day Method



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## EFTPS Benefits to Taxpayers

- Easy to use, convenient, accurate, fast and economical
- Taxpayer is in control
- No special equipment is needed



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# **Electronic Federal Tax Payment System**

So what's the easiest way to pay all your  
Federal business taxes?

**EFTPS, of course.**





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**To enroll or for additional information,  
call Customer Service:**

**1-800-555-4477**

**1-800-945-8400**



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**Thank You!!!**