

Chapter 8

Depositing & Reporting Withheld Taxes (Compliance)

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Chapter 8 Summary

Employer EIN

- Each Employer is required to have an Employer Identification Number (EIN)
- Apply online, by Fax, by phone, by mail

Depositing Withheld Income and Employment Taxes

- Payroll Tax Deposit Rules**
 - Based on total Liability for Federal Income, Social Security, and Medicare Taxes during the look back period (generally a calendar/fiscal year)
 - New employers are classified as Monthly because there is no history
 - Monthly depositors have tax liability of less than \$50,000 and deposited by the 15th of the next month.
 - Semimonthly depositors have a tax liability of greater than \$50,000
 - Use general 3-day rule for deposits (Wed, Thu, Fri, due by following Wed; Sat, Sun, Mon, Tue, due by following Fri)
 - One Day rule applies to total daily tax liability greater than \$100,000

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Chapter 8 Summary

How to Deposit Payroll Taxes

- As of 2010, all deposit must be made electronically – through EFTPS system
 - ER's with tax liability of less than \$2500 in the current or preceding quarter can pay with 941 filing
- EFTPS Debit (IRS Pulls funds) or Credit (Finance Institution Pushes funds)
- Penalties for late deposits
 - 2% of the undeposited amount if it is deposited within 5 days of the due date;
 - 5% of the undeposited amount if it is deposited within 6–15 days of the due date;
 - 10% of the undeposited amount if it is deposited more than 15 days after the due date (also applies to amounts paid to the IRS within 10 days after receipt of the first IRS delinquency notice or not made electronically); or
 - 15% of the undeposited amount if it is not paid within 10 days after the employer receives its first IRS delinquency notice or on the same day a notice and demand for payment is received.
 - IRS can also add 10% for not depositing through EFTPS
 - 100% Penalty for willfully not withholding and paying taxes - Criminal Penalties of additional fines and up to 5 year in prison

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Chapter 8 Summary

Form W-2 – Wage and Tax Statement

- Penalties
 - \$50 per statement if the failure to provide a complete and correct statement is corrected within 30 days after the due date, with a maximum penalty of \$556,500 a year (\$194,500 for small businesses)
 - \$110 per statement if the failure to provide a complete and correct statement is corrected more than 30 days after the due date but by August 1 of the same year the statement is due, with a maximum penalty of \$1,669,500 a year (\$556,500 for small businesses)
 - \$270 per statement if the failure to provide a complete and correct statement is not corrected by August 1, with a maximum penalty of \$3,339,000 (\$1,113,000 for small business)
- Electronic Filing Requirements
- State Filing Requirements

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Chapter 8 Review

Review Questions

1. What are the general deposit requirements for monthly, semiweekly, and one-day depositors?
 - Monthly depositors must deposit their accumulated tax liability for each calendar month by the 15th of the following month.
 - Semiweekly depositors must deposit their payroll tax liability for wages paid on Wednesday, Thursday and Friday by the following Wednesday. The payroll tax liability for wages paid on Saturday, Sunday, Monday, and Tuesday must be paid by the following Friday.
 - If an employer's accumulated payroll tax liability reaches \$100,000 on any day during a monthly or semiweekly deposit period, the liability must be deposited by the close of the next business day.
2. Define the shortfall rule for semiweekly depositors.
 - Under the "shortfall" rule, employers are not penalized for depositing a small amount less than the entire amount of their deposit obligation. An employer satisfies its deposit obligation if the shortfall is no more than the greater of \$100 or 2% of the entire amount due and the shortfall is made up by the appropriate "make-up" date.
3. What are the rules regarding the timeliness of mailed payroll tax deposits?
 - Beginning with payroll tax deposits based on wages paid after December 31, 2010, they may not be mailed because they must be made by electronic funds transfer through the Electronic Federal Tax Payment System. Federal tax deposit coupons and paper checks are no longer acceptable as a method of deposit.

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Chapter 8 Review

4. What is Schedule R (Form 941) used for?
 - Schedule R (Form 941), Allocation Schedule for Aggregate Form 941 Filers, is filed to allocate the aggregate information reported on Form 941 to each of the reporting agent's clients.
5. What is the 100% penalty?
 - Individuals who are responsible for collecting, accounting for, and paying over withheld income and employment taxes and who willfully fail to do so are subject to an additional penalty equal to the total amount of the taxes owed. This is known as the "Trust Fund Recovery Penalty" or the "100% penalty."
6. What must be done with an undeliverable Form W-2c?
 - If a Form W-2c cannot be delivered to an employee after a reasonable effort to do so has been made, the employer must keep the form for four years or maintain an electronic file containing the information on the form for the same time period.
7. What is the purpose of Form 944?
 - Employers that have a payroll tax liability of up to \$1,000 in a calendar year file Form 944, Employer's Annual Federal Tax Return, rather than Form 941, Employer's Quarterly Federal Tax Return.

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Chapter 8 Review

8. What steps must be taken to obtain an EIN by phone?

- Only foreign employers can take the following steps to obtain an EIN by phone:
 - Complete Form SS-4 before calling
 - Call 267-941-1099
 - Provide the requested information from Form SS-4
 - Write the EIN on the SS-4, sign and date it, and keep it for your records

9. What is the lookback period for determining an employer's Form 941 payroll tax depositor status?

- The lookback period is the 12-month period ending June 30 of the previous year.

10. Ken's Bike Shop began operating on March 5, 2019 and files Forms 941 for the remainder of 2019. What is Ken's Form 941 lookback period for 2020?

- March 5, 2019 through June 30, 2019.

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Chapter 8 Review

11. Employer Mark starts business on July 1, 2019. As a new employer, Mark is classified as a monthly depositor. On Friday, July 5, Mark pays wages and accumulates a tax liability of \$55,000. On Friday, July 12, Mark again accumulates taxes of \$55,000 after his second payday. How much is Mark's deposit obligation? When must it be paid?

- Mark's deposit obligation as of July 12 is \$110,000. It must be deposited by the close of the next business day (Monday, July 15). Mark becomes a semiweekly depositor for the rest of 2019 and all of 2020.

12. Outline the penalties for failing to make payroll tax deposits on time.

- The following are the penalties for not making payroll tax deposits on time:
 - 2% of the undeposited amount if it is deposited within 5 days of the due date
 - 5% of the undeposited amount if it is deposited within 6-15 days of the due date
 - 10% of the undeposited amount if it is deposited more than 15 days after the due date
 - 15% of the undeposited amount if it is not paid within 10 days after the employer receives its first IRS delinquency notice or on the same day that a notice and demand for payment is received.

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13. What are the requirements for filing Form 941 by employers that are going out of business?

- An employer that will no longer be in business and will not be paying wages subject to federal income withholding, social security, and Medicare taxes should do the following:
 - Check the box on Line 17 when completing its last Form 941 indicating that it will not file any returns in the future;
 - Enter the date that final wages were paid;
 - Attach a statement showing the address where the employer's records will be kept, the name of the person keeping the records, and, if the business has been sold or transferred, the name and address of the new owner and the date of the sale or transfer;
 - File the Form 941 by the end of the first month after the end of the quarter during which the employer stopped paying wages; and
 - File Schedule D (Form 941), *Report of Discrepancies Caused by Acquisitions, Statutory Mergers, or Consolidations*, if the employer is no longer in business as the result of a statutory merger or consolidation, or if it qualifies as a predecessor or successor after an acquisition.

14. On Form 941, how does the employer treat fractional cents that cause differences in calculating the employer's and employees' social security and Medicare taxes?

- Enter on Line 7 the difference between the total security and Medicare taxes on Line 5e and the amount actually withheld from employees' wages and paid by the employer that is due to rounding to the nearest penny.

15. What is Schedule B (Form 941) used for?

- Schedule B records an employer's payroll tax liability, not its deposits. Semiweekly depositors at any time during a quarter must file a Schedule B with Form 941.

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Chapter 8 Review

- 16. What form is used to report nonpayroll withheld taxes?
 - Form 945, Annual Return of Withheld Federal Income Tax.
- 17. What is the penalty for late filing of employment tax returns?
 - Unless an employer has reasonable cause and is not guilty of willful neglect, late filing of Form 941 or other employment tax returns results in an "addition to tax," the amount of which depends on how late the return is filed. The amount is: 5% of the amount of tax required to be shown on the return (after accounting for deposits and credits) for each month or fraction of a month that the return is late, to a maximum of 25% (15% per month to a maximum of 75% of the unpaid tax if the late filing is fraudulent).
- 18. What is the purpose of backup withholding?
 - The purpose of backup withholding is to ensure that income tax is paid on income reported on Forms 1099.
- 19. Which amounts on Forms 941, W-2, and W-3 does the SSA compare to make sure employers are taxing and reporting wages correctly?
 - The amounts compared by the SSA include:
 - Social security wages
 - Social security tips
 - Medicare wages and tips

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Chapter 8 Review

- 20. What are the penalties for failure to file information returns for 2019 on time and with correct information?
 - The general penalties for failure to file information returns for tax year 2019 on time and with correct information are as follows:
 - \$50 per return if the failure to file or provide correct information is corrected within 30 days after the due date, with a maximum penalty of \$556,500 a year (\$194,500 for small businesses)
 - \$110 per return if the failure to file or provide correct information is corrected more than 30 days after the due date but before August 1 of the same year the return is due, with a maximum penalty of \$1,669,500 a year (\$556,500 for small businesses)
 - \$270 per return if the failure to file or provide correct information is not corrected by August 1, with a maximum penalty of \$3,339,000 (\$1,113,000 for small businesses)

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Chapter 8 Review

True or False Questions

1. All employers that are required to deposit their withheld income and employment taxes face a penalty if they do not make their tax deposits electronically.
2. New employers deposit their payroll tax liability as a semiweekly depositor.
3. The shortfall rule allows an employer to deposit 95% of its payroll tax liability without a penalty.
4. New employers can obtain an EIN immediately when applying online.
5. Employers are entitled to a 10-day filing extension for Form 941 if they have deposited all payroll taxes when due throughout the quarter.
6. An EIN is obtained from the Social Security Administration using Form SS-4.
7. If a semiweekly period overlaps quarters and you have two paydays—one in each quarter—you can choose which quarter to include the wages for purposes of making payroll tax deposits.
8. A new EIN is necessary if a new corporation emerges from a consolidation that does not qualify as a reorganization.
9. The Form 941 payroll tax deposit lookback period for calendar year 2019 is January 1, 2018–June 30, 2018.

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- 10. An employer has accumulated payroll taxes on Form 941 of \$42,000 during the 2019 lookback period. The employer is a semiweekly depositor for 2019.
- 11. If an employer accumulates taxes of \$100,000 or more on any one day during a deposit period, it must deposit the liability by the next business day.
- 12. Forms 941 that are mailed through the U.S. Postal Service are considered timely if postmarked at least one day before the due date.
- 13. Government employers that withhold federal income tax and only the Medicare portion of FICA taxes must report these taxes on Form 941.
- 14. If an employer sells or transfers its business, a separate Form 941 must be filed by both the previous and current owners for the quarter in which the sale took place.
- 15. If a monthly depositor has a total tax liability for a quarter of less than \$2,500, the employer must pay it with Form 941.

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- 16. Copy A of all paper W-2 Forms and Form W-3 must be filed with the SSA by January 31 of the year following the calendar year for which wages are reported.
- 17. When receiving undercollected taxes from employees, any overcollection of taxes from one employee may be used to offset an undercollection from another.
- 18. Where there has been a merger or consolidation of two employers and one survives, the surviving corporation is considered to be the same employer as the acquired company and therefore must provide Forms W-2 to all the employees of the acquired company.
- 19. Allocated tips should be included in Box 1 of Form W-2.
- 20. Employers wishing to use substitute W-2 forms should send a sample to the IRS for approval prior to use.
- 21. Dollar amounts should be entered on Form W-2 without commas or dollar signs.
- 22. Form W-3 is used only by employers that file paper Copies A of Form W-2 with the SSA.
- 23. Nonprofit organizations engaged in a trade or business are exempt from the 1099 reporting requirements.
- 24. All paper Forms 1099-MISC must be sent to the SSA with the appropriate transmittal form by February 28 of the year following the year in which payments were made.
- 25. Businesses that must file 250 or more Forms 1099-MISC are required to file them electronically.

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Chapter 8 Review

- 1. True
- 2. False New employers are classified as monthly depositors.
- 3. False At least 90% of the tax liability (or the liability - \$100, if that is less) must be deposited to avoid a late payment penalty.
- 4. True
- 5. True
- 6. False Form SS-4 is filed with the IRS, not the SSA.
- 7. False This scenario creates 2 separate deposit obligations that must be satisfied by the same day.
- 8. True
- 9. False For calendar year 2019, the payroll tax deposit lookback period is July 23, 2017 - June 30, 2018.
- 10. False The employer is a monthly depositor for 2019 because its total payroll tax liability for the 2019 lookback period is less than \$50,000.
- 11. True
- 12. False Forms 941 sent by U.S. mail are considered timely if postmarked no later than the form's due date.
- 13. True
- 14. True
- 15. False The employer has the option to either deposit the amount or pay it with Form 941.
- 16. True
- 17. False When recovering undercollections from employees, each employee must be treated separately, so an overcollection of taxes from one employee cannot be used to offset an undercollection from another.
- 18. True
- 19. False Allocated tips should not be included in Box 1, 5, or 7 of Form W2, but they should be included in Box 8.
- 20. False In general, employers wishing to use substitute W-2 forms should not send a sample to the IRS for approval prior to use.
- 21. True
- 22. True
- 23. False Nonprofit organizations engaged in a trade or business are not exempt from Form 1099 reporting requirements.
- 24. False Paper Forms 1099-MISC must be sent to the IRS Processing Center listed on the 1099 series instructions. Those with an amount reported in Box 7, Nonemployee Compensation, must be sent by January 31 of the year following the year in which the payments were made.
- 25. True

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Chapter 8 Review

Multiple Choice Questions

- 1. When depositing withheld income and employment taxes, what method of deposit must be used by an employer?
 - a. Form 8109
 - b. Mailing through the U.S. Postal Service
 - c. EFTPS
 - d. Delivering a check to a financial institution

C
- 2. When an employer has been unable, after a reasonable effort, to deliver an employee's copies of Form W-2, how long must it keep those copies or be able to reproduce the electronic file containing the employee's W-2 information?
 - a. Five years
 - b. Three years
 - c. Two years
 - d. Four years

D

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Chapter 8 Review

- 3. Where does the employer send Form 1099-MISC?
 - a. IRS
 - b. SSA
 - c. USCIS
 - d. Wage and Hour Division

A
- 4. Distributions from retirement plans and payments of matured annuity, endowment, and life insurance contracts must be reported on what form?
 - a. Form W-2P
 - b. Form W-2
 - c. Form W-3
 - d. Form 1099-R

D
- 5. If a monthly depositor accumulates \$100,000 in tax liability on any day during a month, how does this affect the employer's depositor status?
 - a. Remains monthly
 - b. Becomes semiweekly for the rest of the year
 - c. Becomes semiweekly for the rest of the current year and all of next year
 - d. Becomes a one-day depositor for the rest of the year

C

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Chapter 8 Review

- 6. What is the Form 941 tax deposit lookback period for calendar year 2019?
 - a. July 1, 2016–June 30, 2017
 - b. Jan. 1, 2016–Dec. 31, 2016
 - c. July 1, 2017–June 30, 2018
 - d. Jan. 1, 2018–Dec. 31, 2018

C
- 7. When must a semiweekly depositor with a Friday payday deposit its employment tax liability?
 - a. The following Tuesday
 - b. The following Wednesday
 - c. The following Thursday
 - d. The following Friday

B
- 8. What are the due dates for Form W-2?
 - a. To employees by Jan. 31 and to SSA by the last day of February (March 31 if filed electronically)
 - b. To employees and SSA by Jan. 31
 - c. To employees and IRS by Feb. 28
 - d. To employees by Jan. 31 and to IRS by Feb. 28

B

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Chapter 8 Review

- 9. What form is completed by new employers when requesting an EIN?
 - a. Form SS-4
 - b. Form SS-5
 - c. Form SS-8
 - d. Form W-9

A
- 10. What form is used to report backup withholding?
 - a. Form 941
 - b. Form 944
 - c. Form 943
 - d. Form 945

D
- 11. How frequently are new employers that anticipate having an annual tax liability of more than \$1,000 required to make withheld federal income and employment tax deposits?
 - a. Semiweekly
 - b. Monthly
 - c. The next banking day
 - d. Quarterly

B

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Chapter 8 Review

- 12. On May 31, a monthly depositor's payroll tax liability is \$15,000. When is the deposit due?
 - a. June 7
 - b. June 1
 - c. June 15
 - d. June 30

C
- 13. XYZ Corporation, a semiweekly depositor, has a payroll tax liability of \$65,000 on the first Thursday in December 2019. When must the liability be deposited?
 - a. The following Wednesday
 - b. The following Friday
 - c. The 15th of the following month
 - d. With the quarterly Form 941

A
- 14. Northwestern Shipping Corp. accumulates a payroll tax liability on the Friday before Labor Day of \$131,640. When is the deposit due?
 - a. The Friday before Labor Day
 - b. The following Tuesday
 - c. The following Wednesday
 - d. The following Friday

B

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Chapter 8 Review

- 15. Adjustments for fractional cents are reported on what line of Form 941?
 - a. 8
 - b. 7
 - c. 4
 - d. 9

B
- 16. If an employer overwithholds federal income tax from its employees' wages and discovers the error after filing Form 941 for the quarter during which the error was made but before the end of the year, which option is not available to the employer?
 - a. The employer may reimburse the employee for the overwithheld amount
 - b. The employer may reduce future withheld taxes during the same calendar year that the error occurred
 - c. The employer may apply the overwithheld amount to the next calendar quarter in the same year that the error occurred
 - d. The employer may apply the overwithheld amount to the following year to reduce the amount withheld in the new year

D
- 17. What form must be filed to report and explain corrections to amounts previously reported on Form 941?
 - a. Form 941-M
 - b. Form 941-X
 - c. Form 944-X
 - d. An amended Form 941

B

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Chapter 8 Review

18. What form is used to request a credit for overpaid taxes?

- a. Form 941
- b. Form 843
- c. Form 940
- d. Form 941-X

D

19. To satisfy federal, state, and local taxing agency requirements, which copies of the Form W-2 must the employee receive by January 31?

- a. Copies A, B, & C
- b. Copies B, C, & 1
- c. Copies B, C, & 2
- d. Copies B, 1, & 2

C

20. When an employee leaves employment before the end of the calendar year and requests Form W-2 in writing, how long does the employer have to send it?

- a. 10 days from the request
- b. 15 days from the request
- c. 20 days from the request
- d. 30 days from the request

D

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Chapter 8 Review

21. On Form W-2, what box is used to report wages, tips, and other compensation?

- a. Box 1
- b. Box 10
- c. Box 12
- d. Box 14

A

22. Employer-provided dependent care assistance must be reported in Boxes 1, 3, and 5 of Form W-2 when the assistance exceeds what amount?

- a. \$2,000
- b. \$3,000
- c. \$5,000
- d. \$7,500

C

23. What code is entered in Box 12 of Form W-2 when the value of group-term life insurance over \$50,000 is reported?

- a. Code C
- b. Code D
- c. Code E
- d. Code F

A

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Chapter 8 Review

24. What is the threshold amount for requiring reporting of service payments to individuals who are not employees on Form 1099-MISC?

- a. \$10
- b. \$400
- c. \$600
- d. \$550

C

25. What is the transmittal form that accompanies each Form 1099 series if the forms are filed on paper?

- a. Form W-3
- b. Form 1096
- c. Form 8109
- d. Form 1099-R

B

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Chapter 8 Review

Problems

1. In Box 12 of Form W-2, match the following codes with the item to which they relate. Codes: A, B, C, D, E, F, G, H, J, K, L, M, N, Q, R, S, T, V, W, Y, Z, AA, BB, DD, EE, FF, GG, HH

- Sick pay not included as income
Value of group-term life insurance over \$50,000
Section 403(b) elective deferrals
Designated Roth contributions to a governmental 457(b) plan
Nontaxable combat pay
Section 401(k) elective deferrals
Permitted benefits under a qualified small employer health reimbursement arrangement
Section 457(b) elective deferrals
Health savings account contributions
Adoption benefits
Designated Roth contributions to a Section 401(k) plan
Section 408(k)(6) elective deferrals
Section 501(c)(18)(D) elective deferrals
Income from qualified equity grants under section 83(i)
Value of employer-provided health coverage
Deferrals under a Section 409A nonqualified deferred compensation plan
Uncollected Medicare tax on tips
Medical savings account contributions
Uncollected social security tax on tips
Nonstatutory stock options
Designated Roth contributions to a Section 403(b) plan
Nontaxable part of employee business expense reimbursements
Tax on excess golden parachute payments
Aggregate deferrals under section 83(i) elections
Income under Section 409A on a nonqualified deferred compensation plan
Uncollected social security tax on value of group-term life insurance coverage over \$50,000
Uncollected Medicare tax on value of group-term life insurance coverage over \$50,000
SIMPLE retirement account contributions

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Blank lines for writing answers to problem 1.

Chapter 8 Review

- J Sick pay not included as income
C Value of group-term life insurance over \$50,000
E Section 403(b) elective deferrals
EE Designated Roth contributions to a governmental 457(b) plan
Q Nontaxable combat pay
D Section 401(k) elective deferrals
FF Permitted benefits under a qualified small employer health reimbursement arrangement
G Section 457(b) elective deferrals
W Health savings account contributions
T Adoption benefits
AA Designated Roth contributions to a Section 401(k) plan
F Section 408(k)(6) elective deferrals
H Section 501(c)(18)(D) elective deferrals
GG Income from qualified equity grants under section 83(i)
DD Value of employer-provided health coverage
Y Deferrals under a Section 409A nonqualified deferred compensation plan
B Uncollected Medicare tax on tips
R Medical savings account contributions
A Uncollected social security tax on tips
V Nonstatutory stock options
BB Designated Roth contributions to a Section 403(b) plan
L Nontaxable part of employee business expense reimbursements
K Tax on excess golden parachute payments
HH Aggregate deferrals under section 83(i) elections
Z Income under Section 409A on a nonqualified deferred compensation plan
M Uncollected social security tax on value of group-term life insurance coverage over \$50,000
N Uncollected Medicare tax on value of group-term life insurance coverage over \$50,000
S SIMPLE retirement account contributions

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Blank lines for writing answers to the matching problem.

Chapter 8 Review

- 6. World Wide Express electronically files all of its 2019 information returns—2,600 Forms W-2—on time with the SSA, 40 of which contain incorrect information. Corrections were filed on May 30. a. How many returns are subject to penalty? b. What is the penalty?
7. Stars Toolies electronically files all of its 2019 information returns—1,400 Forms W-2—on time with the SSA, 30 of which contain incorrect information. Corrections were filed on May 10. a. How many returns are subject to penalty? b. What is the penalty?
8. Better Build PC electronically filed all of its 500 2019 Forms W-2 on time with the SSA, but it did not file its 50 2019 Forms 1099-MISC with the IRS until August 10. What is the penalty for late filing?
9. An employer is required to file information returns electronically, but instead mailed 380 paper Forms W-2 on time with the correct information. How many returns are subject to the failure-to-file penalty?

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Blank lines for writing answers to problems 6-9.