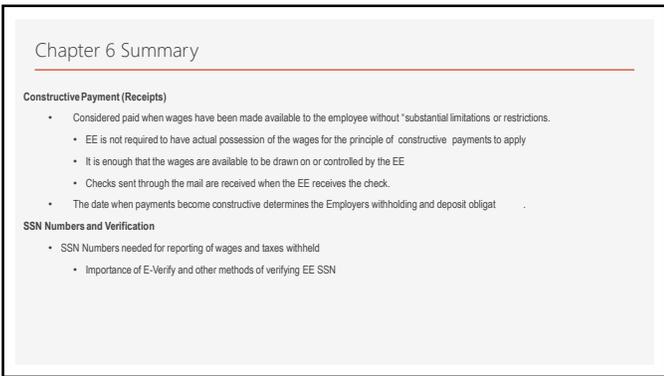
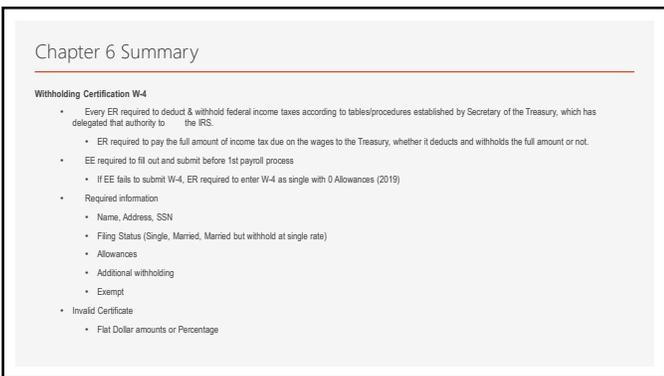




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2



3

Chapter 6 Summary

Withholding Methods

- **Wage Bracket Method**
 - Know EE Filing Status and Allowances
 - Determine FIT taxable wages
 - Match to IRS Table
- **Percentage Method**
 - Number of Allowances and value of the allowances
 - Determine FIT taxable wages and subtract allowance value
 - Locate Percentage method table (Single or Married)
 - Add any additional extra dollar amounts
- **Alternate Methods**
 - Annualized Wages (Most payroll systems)
 - Cumulative Wages
- **Supplemental Wage Payments**
 - Combined Payments
 - Flat Withholding Rate
 - Aggregate Method

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Chapter 6 Summary

Other Withholding Issue

- **State Withholding**
- **Withholding on Pensions & Annuities**
 - W4-P
- **Back-up Withholding**
 - 1099 (Accounts Payable)
- **Social Security and Medicare**
 - SS - 6.2% for EE and ER & Medicare - 1.45% for EE & ER (EE with over \$200K - an additional .09%)
- **Wages Exempt for SS/Medicare**
 - Sickness/Injury payments under Workers Compensation
 - Section 125 Payments
 - State & Local Employers without a Section 218 agreement.
- **Penalties**
 - ER Failure to deposit

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Chapter 6 Review Questions

Review Questions

1. **What is a Form W-4?**
 - Employee's Withholding Allowance Certificate
2. **How long must the employer keep an employee's Form W-4 on file?**
 - Employers must retain each employee's Form W-4 for at least four years after the date the last tax return was due using information from the form, which is April 15 of the following year (e.g., if an employee files an amended W-4 in 2019, the previous W-4 must be retained until at least April 15, 2024)
3. **Explain the principle of constructive payment.**
 - Constructive payment indicates the point in time when an employee has the ability to control the payments for services from an employer.
4. **Why is the date of actual or constructive payment of wages important?**
 - The date of actual or constructive payment is important because it determines when wages are taxed and reported and at what rates.
5. **When must a newly hired employee's Form W-4 be put into effect?**
 - A Form W-4 filed by a newly hired employee must be put into effect by the employer for the first wage payment after the form is filed.

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Chapter 6 Review Questions

6. What does a Form W-4 tell the employer?

- Form W-4 tells the employer how many withholding allowances the employee is claiming and the employee's marital status. The number of allowances and marital status help determine the amount of federal income tax to withhold from the employee's wages. Form W-4 also notifies the employer whether the employee is claiming exempt from withholding and whether the employee is a nonresident alien. In addition, it may indicate that the employee wants an additional dollar amount withheld beyond the amount that is calculated on the withholding allowances and marital status claimed.

7. What conditions must be satisfied for an employee to claim exempt from withholding?

- In order to be exempt from withholding, the employee must certify that all of the following are true:
 - He or she had a right to a refund of all federal income tax withheld in the prior year because the employee had no tax liability.
 - He or she expects to have no tax liability in the current year.
 - He or she cannot be claimed as a dependent on someone else's income tax return if the employee will have more than \$1,100 in income (including at least \$350 in nonwage income) in 2019.

8. Under what circumstances must an employer submit Forms W-4 to the IRS?

- The employer must submit Form W-4 to the IRS in the following situations:
 - The IRS directs the employer to do so in a written notice to the employer.
 - The IRS directs the employer to do so in published guidance, such as a revenue procedure.

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Chapter 6 Review Questions

9. List six types of supplemental wage payments.

- Types of payments that are treated as supplemental wage payments include:
 - Reported tips
 - Overtime pay
 - Bonuses
 - Back pay
 - Commissions
 - Payments made under reimbursement or other expense allowance arrangements that are made under a nonaccountable plan
 - Nonqualified deferred compensation payments included in wages
 - Noncash fringe benefits
 - Sick pay paid by a third party as an agent of the employer
 - Amounts includible in gross income under IRC §409A
 - Income recognized on the exercise of a nonstatutory stock option
 - Wages imputed for health coverage of someone who is not a spouse, dependent, or adult child under age 27 of an employee
 - Wages recognized on the lapse of restrictions on restricted property transferred from an employer to an employee

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Chapter 6 Review Questions

10. What method of federal income tax withholding must be used if the employee claims exempt from withholding, has received \$10,000 in regular and supplemental wages so far during the year, and is paid a bonus of \$1,000 during a payroll period?

- The withholding exemption would apply to the supplemental wages as well, so no withholding for federal income tax would be done.

11. What are eligible rollover distributions?

- Generally all nonperiodic payments of all or any portion of the balance of a recipient's account in a qualified deferred compensation plan are eligible rollover distributions other than:
 - Substantially equal periodic payments made over the lifetime or life expectancy of the employee or his or her beneficiary, or made for a specified period of at least 10 years
 - Any minimum distribution that is required under IRC §401(a)(9) regarding qualified plans
 - Distributions not included in gross income (e.g., return of an employee's after-tax contributions), except for net unrealized appreciation of employer securities
 - Returns of amounts deferred under a §401(k) or §403(b) plan that exceed the elective deferral limits
 - Loans treated as deemed distributions
 - Dividends paid on employer securities
 - Distributions of the cost of current life insurance coverage

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Chapter 6 Review Questions

- 12. What is backup withholding?
 - Payers must generally withhold 24% of reportable nongayroll payments during 2019 if payees fail to furnish payers with their taxpayer identification number or the IRS notifies them to withhold. This withholding is referred to as backup withholding.
- 13. What is the employer social security tax rate for wages paid in 2019?
 - The employer social security tax rate for wages paid in 2019 is 6.2%
- 14. Can employees receive advance payments of the Earned Income Credit for wages paid in 2019?
 - No. Advance payments of the Earned Income Credit were eliminated for wages paid after December 31, 2010
- 15. Under IRS regulations, what methods may employers use to notify employees who have no income tax withheld and do not file exempt of their possible eligibility for a tax refund because of the EIC.
 - Employers must provide notification of the right to the earned income credit by giving the employees one of the following:
 - Copy B of Form W-2, Wage and Tax Statement (IRS-supplied forms have the required EIC statement on the back of Copy B substitutes used for this purpose must have the required statement on the back of the employee copy)
 - Notice 797, Possible Federal Tax Refund Due to the Earned Income Credit
 - A written statement with the exact same wording as Notice 797

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Chapter 6 Review Questions

- True or False**
1. An employer should refuse to change an employee's name until a new social security card with the employee's new name is presented or the new information has been otherwise verified with the SSA.
 2. Under the principle of constructive payment, an employee is considered to have been paid wages that have been made available to the employee with "substantial limitation or restriction."
 3. Employees whose paychecks are mailed by their employer are not constructively paid when the paychecks are mailed unless the employees have the option of picking up their checks at the office on the day they are mailed.
 4. An amended Form W-4 filed by a current employee must be put into effect by the employer no later than the beginning of the first payroll period ending on or after the 30th day after the form is filed with the employer.
 5. If supplemental wages paid with regular wages are not clearly identified, the employer must withhold federal income tax as if the combined payment is a wage payment for that payroll period.
 6. Under the principle of constructive payment, an employee is considered to have been paid wages when they are earned and become payable.
 7. When an employee requests federal income tax withholding on sick pay, Form W-4S directs the third party to withhold a flat dollar amount.
 8. The backup withholding rate for 2019 is 28%.
 9. An employee cannot receive advance payments of the Earned Income Credit based on wages paid after December 31, 2010.

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Chapter 6 Review Questions

10. The rate of social security tax paid by an employer on an employee's wages in 2019 is 6.2%.
11. An employee's social security number is needed by the employer even if there is no withholding.
12. If a new employee does not provide a Form W-4, the employer must withhold as if the employee were single with no allowances.
13. Employees have the option on their Form W-4 to have a flat dollar amount of tax withheld from their pay.
14. Pension recipients may claim a certain number of withholding allowances on Form W-4P to be used in calculating the amount to withhold.
15. When determining the amount of federal income tax to withhold using the percentage method, employers may round off the withholding amount to the nearest dollar.
16. When using the wage-bracket method of withholding, if the wage payments are above the maximum table amount, the employer has the option to use the optional flat rate.
17. If an employee chooses to receive part of an eligible rollover distribution and to directly roll over the rest, federal income tax withholding is required only on the portion received by the employee.
18. As soon as an employee's wage payments from an employer for 2019 reach \$132,900, the employer must stop withholding social security tax from the employee's wages for the rest of the year.
19. Employers are required to notify employees who have no federal income tax withheld from wages and do not claim exempt of their possible eligibility for a tax refund because of the EIC.
20. If an employee works for more than one employer, each employer is liable for withholding and paying the employee's share of social security and Medicare taxes.

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Chapter 6 Review Questions

1. True	11.True
2. 2. False Wages are considered constructively paid only if they are made available to the employee without "substantial limitation or restriction."	12.True
3. True	13.False Employees cannot indicate on their W-4 form that they wish to have a flat amount of tax withheld rather than an amount based on the number of withholding allowances that can be claimed.
4. True	14.True
5. True	15.True
6. False Under the principle of constructive payment, an employee is considered to have been paid wages when they are actually or constructively paid, not when they are earned or payable.	16.False For wage payments equaling or exceeding the maximum amount, the percentage method of withholding must be used.
7. True	17.True
8. False The required rate for backup withholding in 2019 is 24%.	18.True
9. True	19.True
10.True	20.True

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Chapter 6 Review Questions

Multiple Choice Questions

1. ____ What program does the Social Security Administration provide to verify employees' social security numbers?
 a. Immigration Reform and Control Act
 b. Social Security Number Verification Service
 c. New Hire Reporting
 d. Online TIN Verification
B

2. ____ If the number of withholding allowances decreases for an employee, other than because of a change brought about by the Tax Cuts and Jobs Act, how long does the employee have to submit a new Form W-4?
 a. 10 days
 b. 30 days
 c. 15 days
 d. 1 year
A

3. ____ If a payer receives a "B" notice from the IRS, how long does the payer have to send a copy to the payee along with Form W-9, Request for Taxpayer Identification Number and Certification?
 a. 30 days
 b. 15 days
 c. 10 days
 d. 5 days
B

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Chapter 6 Review Questions

4. ____ What is the Medicare wage base for 2019?
 a. \$132,900
 b. There is no limit on taxable Medicare wages.
 c. \$128,400
 d. \$200,000
B

5. ____ An employee is supposed to receive his last paycheck of \$1,500 for 2019 on Thursday, December 26. Because of a system failure, paychecks are not available until Thursday, January 2, 2020. Before December 26, the employee's 2019 earnings were \$132,200. How much social security and Medicare taxes must be withheld?
 a. Social security \$43.40 and Medicare \$21.75
 b. Social security \$93 and Medicare \$0
 c. Social security \$0 and Medicare \$21.75
 d. Social security \$93 and Medicare \$21.75
D

6. ____ Which of the following forms must be completed to obtain a social security number?
 a. Form SS-4
 b. Form SS-5
 c. Form SS-8
 d. Form W-9
B

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Chapter 6 Review Questions

- 7. Employees' paychecks are mailed from their corporate office on Monday for a Thursday payday. Because of a natural disaster in the area no mail will be delivered until Saturday, when the employees are not at work. So the employees can get paid during this week, the employer wires cash wages to the employees on Friday. The checks arrive at the office on Monday. When are the wages considered paid?
 - a. Thursday
 - b. Friday
 - c. Saturday
 - d. Monday

B
- 8. Which form is completed by recipients of pension and annuity payments to determine the amount to withhold?
 - a. Form W-4
 - b. Form W-4S
 - c. Form W-4P
 - d. Form 1099-R

C
- 9. Which of the following states allows employers to use the federal Form W-4 to calculate state income tax withholding?
 - a. Arizona
 - b. California
 - c. Michigan
 - d. North Carolina

B

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Chapter 6 Review Questions

- 10. An employee claims single and one withholding allowance and is paid \$550 every Friday in 2019. Using the wage-bracket tables, how much federal income tax must be withheld?
 - a. \$34
 - b. \$44
 - c. \$58
 - d. \$54

B
- 11. What must an employer do after learning that a Form W-4 submitted by a current employee is invalid?
 - a. Not implement the Form W-4
 - b. Withhold as if the employee were single with zero allowances
 - c. Inform the IRS
 - d. Make the necessary corrections

A
- 12. A newly hired employee who is married with two children fails to complete Form W-4 by his first payday. What withholding status does the employer use when calculating the employee's withholding?
 - a. Married, with 2 allowances
 - b. Married, with 3 allowances
 - c. Single, with 2 allowances
 - d. Single, with 0 allowances

D

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Chapter 6 Review Questions

- 13. If a pension recipient fails to complete Form W-4P, what withholding status must be used by the payer to calculate withholding?
 - a. Single, with 0 allowances
 - b. Single, with 1 allowance
 - c. Married, with 0 allowances
 - d. Married, with 3 allowances

D
- 14. In 2019, an employee claims married with 5 allowances on Form W-4, and is paid \$2,356 every other Wednesday. Using the wage-bracket tables, how much federal income tax must be withheld from each wage payment?
 - a. \$116
 - b. \$119
 - c. \$114
 - d. \$136

A
- 15. For 2019, how much can employees receive in advance EIC payments?
 - a. Employees cannot receive advance EIC payments in 2019.
 - b. \$1,826
 - c. \$1,750
 - d. \$1,830

A

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Chapter 6 Review Questions

16. In 2019, an employee claims single with 2 allowances on Form W-4, and is paid \$1,110 on the 1st and 15th of each month. Using the wage-bracket tables, how much federal income tax must be withheld from each wage payment?
- \$65
 - \$65
 - \$44
 - \$26
- B**
17. For 2019, what is the social security tax wage base?
- \$118,500
 - \$132,900
 - \$127,200
 - \$128,400
- B**
18. An employee worked for three employers by August 20, 2019. The employee earned \$46,000, \$48,000, and \$62,000 respectively from each employer. What is the total amount of social security and Medicare taxes that should have been withheld from the employee's wages?
- \$10,148.40
 - \$9,191.40
 - \$9,730.80
 - \$11,934.00
- D**

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Chapter 6 Review Questions

19. A single employee with no dependents earns \$43,000 in 2019. The employee claims 12 allowances on a Form W-4 for 2019. Which of the following is correct concerning the Form W-4?
- The employee may claim 12 allowances
 - The employer will require the employee to verify the 12 allowances
 - The employer will disregard the Form W-4 and withhold as single with no allowances
 - The employer will notify the IRS of the claim by submitting a copy of the Form W-4
- A**
20. During 2019, a corporate officer is paid a semimonthly salary of \$9,000 on the 15th and last day of the month. How much social security and Medicare taxes should be withheld from the officer's August 31 paycheck (i.e., 16th pay period)?
- Social Security \$0.00, and Medicare \$0.00
 - Social Security \$0.00, and Medicare \$130.50
 - Social Security \$74.40, and Medicare \$130.50
 - Social Security \$558.00, and Medicare \$130.50
- B**

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Chapter 6 Review Questions

Problems: (For the following problems, assume all wages are subject to federal income, social security, and Medicare taxes and are paid in 2019)

1. Calculate the amount of federal income tax to be withheld in each of the following situations using the percentage method.
- Mark Hayes is single and claims one allowance. His income for the month is \$1,800 and he is paid semimonthly. \$ _____
 - Collin Jones is married and claims three allowances. Jones receives an annual salary of \$42,500 and is paid on a monthly basis. \$ _____
 - Sandra Stebne is single and claims two allowances. She receives an annual salary of \$27,500 and is paid on a weekly basis. \$ _____
- Semimonthly wages (\$1,800 ÷ 2): \$900.00
- Allowance value: -175.00
 - Wages subject to withholding: \$725.00
 - Percentage method formula: $-.053 \text{ } 00 \text{ } 162.00 \times .12 \text{ } \$19.44 + 40.50$
 - FITW: **\$39.94**
- Monthly wages (\$42,500 ÷ 12): \$3,541.67
- Allowance value (\$350.00 × 3): -1,050.00
 - Wages subject to withholding: 2,491.67
 - Percentage method formula: $-.093 \text{ } 00 \text{ } 1,508.67 \times .10$
 - FITW: **\$150.87**
- Weekly wages (\$27,500 ÷ 52): \$528.85
- Allowance value (\$80.85 × 2): -161.69
 - Wages subject to withholding: 367.25
 - Percentage method formula: $-.260 \text{ } 00 \text{ } 107.25 \times .12 \text{ } \$12.87 + 18.70$
 - FITW: **\$31.57**

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Chapter 6 Review Questions

2. Calculate the amount of federal income tax to be withheld in each of the following situations using the percentage method.
- a. David Smart is the managing director of Big Parts, Inc. He is married and claims four allowances. David receives an annual salary of \$72,000. He receives his paycheck quarterly. \$ _____
 - b. Jenny Smith is single and claims one allowance. Her monthly salary is \$2,650 and she is paid on a weekly basis. \$ _____
 - c. Craig Digger is married and claims three allowances. He receives an annual salary of \$53,000 and is paid biweekly. \$ _____
- a. Quarterly wages (\$72,000 ÷ 4): \$18,000.00
 Allowance value (\$1,050.00 × 4): -4,200.00
 Wages subject to withholding: 13,800.00
 Percentage method formula: -7,800.00 6,000.00 × .12 \$720.00 +485.00
 FITW: \$1,205.00
- b. Weekly wages [\$2,650 × 12] ÷ 52: \$611.54
 Allowance value: -80.80
 Wages subject to withholding: 530.74
 Percentage method formula: -260.00 270.74 × .12 \$32.49 +18.70
 FITW: \$51.19
- c. Biweekly wages (\$53,000 ÷ 26): \$2,038.46
 Allowance value (\$1,050 × 3): -484.50
 Wages subject to withholding: 1,553.96
 Percentage method formula: -1,200.00 353.96 × .12 \$42.48 +74.60
 FITW: \$117.08

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Chapter 6 Review Questions

3. Employee Jane is married and is paid \$1,719 by her employer on a biweekly basis. Jane claims 6 withholding allowances on her Form W-4. How much is deducted for federal income tax each pay period? (Use the wage-bracket method). \$ _____
- \$29.00
4. Penney Saver is paid by her employer on a biweekly basis. Penney is married and claims 3 withholding allowances on her Form W-4. She is paid \$1,200 every two weeks. Using the annualized method, calculate the amount of federal income tax to withhold for each period. \$ _____
- Annual wages = \$1,200 × 26 payroll periods = \$31,200
 Withholding using the percentage method:
 Gross wages: \$31,200.00
 Allowance value (\$4,200 × 3): -12,600.00
 Wages subject to withholding: \$18,600.00
 Percentage method formula: -11,800.00 \$6,800.00 × .10 \$680.00
 Withholding per payroll period = \$680.00 ÷ 26 = \$26.15

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Chapter 6 Review Questions

5. Tim Tannic is a salaried employee who is paid \$6,000 on the last day of each month. He is single and claims 2 allowances on his Form W-4. Using the annualized method, calculate the amount of federal income tax to be withheld for each pay period. \$ _____
- Annual wages = \$6,000 × 12 payroll periods = \$72,000
 Withholding using the percentage method:
 Gross wages: \$72,000.00
 Allowance value (\$4,200 × 2): -8,400.00
 Wages subject to withholding: \$63,600.00
 Percentage method formula: -43,275.00 \$20,325.00 × .22 4,471.50 +4,543.00 \$9,014.50
 Withholding per payroll period = \$9,014.50 ÷ 12 = \$751.21
6. Employee Bill receives a \$2,000 bonus in addition to his regular wages and has received \$50,000 in wages so far during the year. Using the optional flat rate withholding method for supplemental wages, calculate Bill's federal income tax withholding on the bonus. \$ _____
- \$2,000 × 22% = \$440.7
7. Helen Williams, a data processing clerk, is married and claims four withholding allowances. Last week, in addition to her regular weekly wages of \$750 she received a separate \$1,000 bonus. Her wages so far during the year totaled \$10,000. Using the optional flat rate for supplemental wages, calculate the federal income tax to be withheld from:
- a. regular wages (using wage-bracket method) \$ _____
 - b. supplemental wages \$ _____
 - c. total wages \$ _____
- a. FITW on regular wages = \$20
 b. FITW on supplemental wages = \$1,000 × 22% = \$220
 c. FITW on total wages \$20 + \$220 = \$240

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