



**Internal Revenue Service**

**Small Business and Self-Employed**

**Taxpayer Education and Communication**

# **Employment Taxes**

## **Lesson 2**



# Internal Revenue Service

Small Business and Self-Employed

Taxpayer Education and Communication

## Agenda

- **Employer Identification Number (EIN)**
- **Employer/Employees/Contractors**
  - Forms
  - Withholding and Employment Taxes
  - Advance Earned Income Credit
  - Annual Wage/Payment Reporting
- **Filing Electronically**
- **Penalties**



**Internal Revenue Service**

**Small Business and Self-Employed**

**Taxpayer Education and Communication**

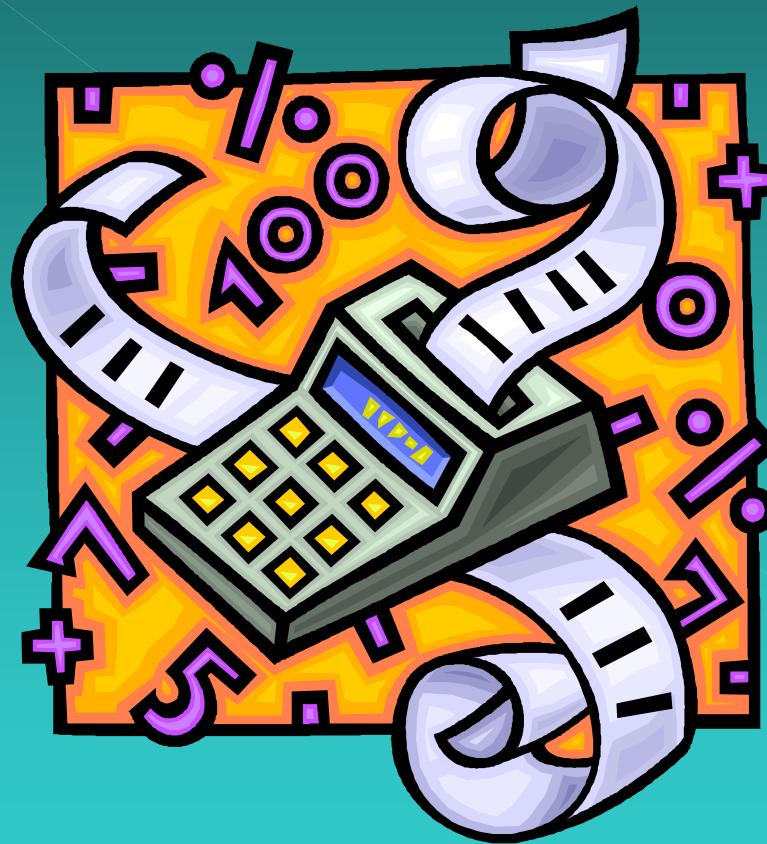
# Objectives

- **Describe employer responsibilities for withholding and other taxes**
- **Review forms related to employment taxes, non-employee, and miscellaneous payments**
- **Describe penalties**
- **Introduce electronic filing**



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

# Employer Identification Number





## Internal Revenue Service

Small Business and Self-Employed

Taxpayer Education and Communication

# Employer Identification Number

- **Required if you:**
  - Pay wages to employees,
  - Withhold taxes for non-wage payments,
  - Have a self-employed retirement plan,
  - Operate as a corporation or partnership, and
  - File employment, excise, fiduciary, alcohol, tobacco & firearms tax returns.
- **Refer to Pub. 1635, *Understanding Your EIN***



# Special Note

- **You do not need an EIN for the IRS, if:**
  - You are a sole proprietor with no employees, and
  - None of the listed filing requirements apply.
- **If banks and wholesale suppliers require an EIN, apply to the IRS for one.**
- **Sole proprietors may use their SSN, if not otherwise required to have an EIN.**



# How to Get an EIN

- **On-Line**
  - Most businesses apply on-line at [www.irs.gov](http://www.irs.gov)
- **Phone**
  - Apply by calling the IRS toll-free line
- **Paper**
  - File a paper Form SS-4, *Application for Employer Identification Number*



**Internal Revenue Service**

**Small Business and Self-Employed**

**Taxpayer Education and Communication**

# Using Your EIN

- **Use it on all items you send to the IRS and SSA pertaining to your business.**
- **If you are a sole proprietor with more than one business, use only one EIN.**
- **Use the same EIN year-to-year as long as you are in business.**
- **Get a new EIN if you change from a sole proprietor to a corporation or partnership.**





**Internal Revenue Service**

Small Business and Self-Employed

Taxpayer Education and Communication

# Employers, Employees, and Independent Contractors





# Internal Revenue Service

Small Business and Self-Employed

Taxpayer Education and Communication

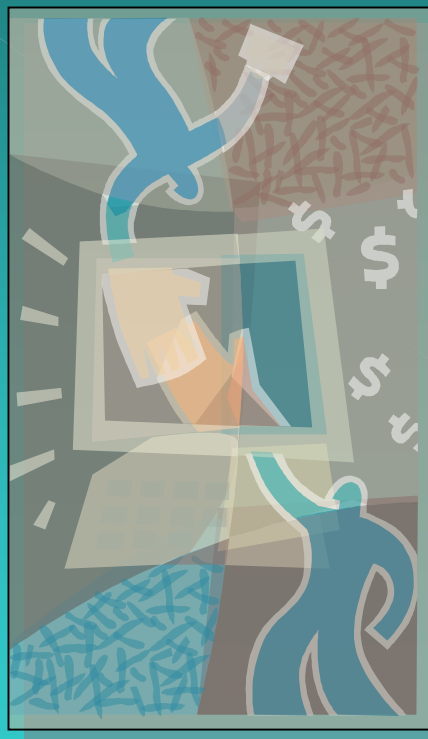
## Employers/Employees/Independent Contractors

- **Employers?**
- **Employees**
  - Perform services for you
  - You control what will be done and how
- **Independent Contractors**
  - Perform services for you
  - Not under your direct control
- **Generally, people in business for themselves are not considered employees**
  - See Pub. 15-A



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

# Withholding Forms, Information Returns, and Advance Credits





# Internal Revenue Service

Small Business and Self-Employed

Taxpayer Education and Communication

## Form W-4

- **Employee's Withholding Allowance Certificate**
- **Determines the amount to be withheld from wages – employee fills it out**
- **Send Form W-4 to the IRS if an employee:**
  - claims more than 10 allowances.
  - claims exemption from withholding and earns more than \$200 per week.



# ITIN

## ITIN - Individual Taxpayer Identification Number

- **Not valid for employment**
- **Does not**
  - Authorize work in the U.S.
  - Provide eligibility for Social Security benefits or the Earned Income Tax Credit
- **Note: To qualify for work in the U.S., employees must have, or be eligible for and have applied for, an SSN.**



**Internal Revenue Service**

**Small Business and Self-Employed**

**Taxpayer Education and Communication**

# **Form 1099-MISC**

## **Miscellaneous Income**

- **Furnish to payee by January 31**
- **If you pay more than \$600 during the year**
- **For an individual independent contractor or other non-employee for services performed in the course of your business**

**Note: This form is not to be used for payments to corporations**



**Internal Revenue Service**

**Small Business and Self-Employed**

**Taxpayer Education and Communication**

# **Form W-9**

## **Request for Taxpayer Identification Number and Certification**

- **You need the SSN or EIN of an independent contractor to complete the Form 1099-MISC**
- **Always have independent contractors complete a Form W-9 before they begin to work**



# Backup Withholding

- **If you do not receive an SSN or EIN before you pay the contractor:**
  - Withhold income tax from the payment.
  - The backup withholding rate is 30%.
  - Report it on Form 945, *Annual Return of Withheld Federal Income Tax*.





# **Form W-2**

## **Wage and Tax Statement**

- **Give to each employee by the earlier of:**
  - January 31
  - 30 days after the last wage payment
- **Keep undeliverable Form W-2 (copies B and C) in your records for four years.**



# Income Tax Withholding

- **Employee wages are generally subject to income tax withholding**
- **Figure it on gross wages before any deductions for:**
  - Social Security,
  - Union dues, and
  - Insurance.
- **Publication 15 has withholding tables and instructions**



# **Social Security & Medicare Taxes**

- **As an employer, you must:**
  - Withhold Social Security and Medicare taxes from wages,
  - Pay a matching amount, and
  - Deposit the employee's part of the taxes.

**Source: Federal Insurance Contributions Act (FICA)**



# Withholding Rates

- **The limit for wages subject to Social Security withholding changes each year.**
- **Use the current year's Social Security tax rate.**
- **All wages are subject to Medicare tax. Use the current year's Medicare tax rate.**
- **The employee and employer shares are equal for both taxes.**



# **Unemployment Tax**

- **Federal Unemployment Tax Act (FUTA)**
  - States and Federal Government cooperate
  - To establish and administer an unemployment tax program
- **Figure the Federal Unemployment Tax**
  - On the FUTA wage limit for the year
  - For each employee paid during the year

**Note: Pub. 15 and Form 940 have more information**



# Advance Earned Income Credit (EIC)

- **Advance EIC payment allowed if employee:**
  - Earns less than the yearly maximum.
  - Has at least one qualifying child.
- **Refundable credit**
- **Use Notice 797 to notify those with no withholding**
- **Employee uses Form W-5, *Earned Income Credit Advance Payment Certificate* to claim it**



**Internal Revenue Service**

**Small Business and Self-Employed**

**Taxpayer Education and Communication**

# **Form W-3**

## **Transmittal of Wage & Tax Statements**

- **If filing on paper, file with SSA by February 28 every year you issue Form W-2.**
- **The SSA website allows on-line filing.**
- **The totals on Form W-3 must equal the totals from all Forms 941 filed for the year.**



# Internal Revenue Service

Small Business and Self-Employed

Taxpayer Education and Communication

## Form 1096

### Annual Summary and Transmittal of U.S. Information Returns

- **Use to transmit copies A of Forms 1099, 1098, 5498, and W-2G to the IRS**
- **File with each type of return**
  - By February 28 if filing on paper
  - By March 31 if filing electronically





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

# Filing Electronically





# Filing Electronically

- **Filing information returns electronically is more cost effective than paper and magnetic media**
- **Form 4419, *Application for Filing Information Returns Magnetically/Electronically***
  - Apply at least 30 days before the due date of the return(s) for current year processing



**Internal Revenue Service**

**Small Business and Self-Employed**

**Taxpayer Education and Communication**

# Penalties





# Penalties

## Dishonored checks

- **Failure to:**
  - File,
  - Pay,
  - File an information return with the IRS or SSA on time, and
  - Furnish a copy of any information return to the payee on time.



# Internal Revenue Service

Small Business and Self-Employed

Taxpayer Education and Communication

## Penalties (Cont'd)

- **Failure to:**
  - File a partnership return,
  - Make Federal Tax Deposits on time in an authorized government depository,
  - Furnish specific information on an information return,
  - Collect and/or pay over Trust Fund taxes (Trust Fund Recovery Penalty), and
  - Make deposits electronically, if required to do so.



**Internal Revenue Service**

Small Business and Self-Employed

Taxpayer Education and Communication

# Need More Information?

- Pubs. 15 & 15-A , *Employer's Tax Guide, Circular E*
- Pub. 1635, *Understanding Your EIN*
- Pub. 3207, *Small Business Resource Guide*
- Website: [www.irs.gov](http://www.irs.gov)
- Visit a local office
- Call 1-800-829-4933 for the Business and Specialty Tax Line