

Notice 931

(Rev. February 2004)

Deposit Requirements for Employment Taxes

There are two deposit schedules—**monthly** or **semiweekly**—for determining when you deposit social security and Medicare taxes and withheld income tax. These schedules tell you when a deposit is due after a tax liability arises (e.g., when you have a payday). Prior to the beginning of each calendar year, you must determine which of the two deposit schedules you are required to use. The deposit schedule you must use is based on the total tax liability you reported during a **lookback period**. Your deposit schedule is **not** determined by how often you pay your employees or make deposits (see **Application of Monthly and Semiweekly Schedules** on the back).

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These rules do not apply to Federal unemployment (FUTA) tax. See the **Instructions for Form 940** for information on depositing FUTA tax.

Exception. If an employer accumulates a tax liability of less than \$2,500 during a quarter for Form 941 (during a calendar year for Forms 943, 945, and CT-1), no deposits are required if you pay in full with a timely filed return. However, if you are unsure that you will accumulate less than \$2,500, deposit under the appropriate deposit rules so that you will not be subject to the failure-to-deposit penalties.

Deposit rules for Form 941. The deposit schedule (monthly or semiweekly) for Form 941 is based on the total tax liability reported on line 11 of Form 941 during a four-quarter lookback period discussed below.

Deposit rules for Forms 943, 945, and CT-1. Generally, the deposit rules for Form 941 also apply to tax liabilities for **Form 943**, Employer's Annual Federal Tax Return for Agricultural Employees, **Form 945**, Annual Return of Withheld Federal Income Tax, and **CT-1**, Employer's Annual Railroad Retirement Tax Return. However, because Forms 943, 945, and CT-1 are annual returns, the rules for determining your deposit schedule apply to a calendar year rather than a calendar quarter. See **Lookback period for annual returns** later. For more information about deposit rules for annual returns, see **Circular E (Pub. 15)**, Employer's Tax Guide, for Form 945, and **Circular A (Pub. 51)**, Employer's Agricultural Tax Guide, for Form 943, and the **Instructions for Form CT-1**.

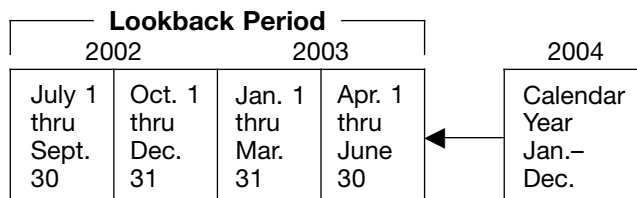
Electronic deposit requirement. You must make electronic deposits of all depository taxes (such as employment tax, excise tax, and corporate income tax) using the Electronic Federal Tax Payment System (EFTPS) in 2004 if:

- Your total deposits of such taxes in 2002 were more than \$200,000 or
- You were required to use EFTPS in 2003.

If you are required to use EFTPS and fail to do so, you may be subject to a 10% penalty. If you are not required to use EFTPS, you may participate voluntarily. To get more information or to enroll in EFTPS, call 1-800-555-4477 or 1-800-945-8400. You can also visit the EFTPS website at www.eftps.gov. For details, see Circular E (Pub. 15), Circular A (Pub. 51), or the Instructions for Form CT-1.

Lookback period for Form 941. Your deposit schedule for a calendar year is determined from the total taxes (not reduced by any advance earned income credit payments) reported on your Forms 941 (line 11) in a four-quarter lookback period. The lookback period begins July 1 and ends June 30 as shown in the chart below. If you reported \$50,000 or less of Form 941 taxes for the lookback period, you are a monthly schedule depositor; if you reported more than \$50,000, you are a semiweekly schedule depositor. There are two exception rules—the \$2,500 rule (see **Exception** above) and the **\$100,000 Next-Day Deposit Rule**. The deposit rules and the \$100,000 exception are discussed later.

Lookback Period for Calendar Year 2004



Lookback period for annual returns. For annual returns (Forms 943, 945, and CT-1), the lookback period is the calendar year preceding the previous year. For example, the lookback period for 2004 is 2002.

Monthly Deposit Schedule

You are a **monthly schedule depositor** for a calendar year if the total taxes (i.e., line 11 of Form 941) during your lookback period were \$50,000 or less.

Under the monthly deposit schedule, deposit accumulated taxes on payments made during a calendar month by the 15th day of the following month.

Monthly schedule depositors are **not** required to file Form 941 on a monthly basis. Do not file **Form 941-M**, Employer's Monthly Federal Tax Return, unless you are instructed to do so by an IRS representative.

New employers. During the 1st calendar year of your business, your tax liability for each quarter in the lookback period is considered to be zero. Therefore, you are a monthly schedule depositor for the 1st year of your business (but see the **\$100,000 Next-Day Deposit Rule** on the back).

Semiweekly Deposit Schedule

You are a **semiweekly schedule depositor** for a calendar year if the total taxes (i.e., line 11 of Form 941) during your lookback period were more than \$50,000.

Under the semiweekly deposit schedule, deposit accumulated taxes on payments made on Wednesday, Thursday, and/or Friday by the following Wednesday. Deposit amounts accumulated on payments made on Saturday, Sunday, Monday, and/or Tuesday by the following Friday.

Deposit Period (Payment Days)	Deposit By
Wednesday, Thursday, and/or Friday	Following Wednesday
Saturday, Sunday, Monday, and/or Tuesday	Following Friday

Semiweekly deposit period spanning two quarters. If a quarter ends on a day other than Tuesday or Friday, taxes accumulated on the days during the quarter just ending are subject to one deposit obligation, and taxes accumulated on the days covered by the new quarter are subject to a separate deposit obligation. For example, if one quarter ends on Thursday, taxes accumulated on Wednesday and Thursday are subject to one deposit obligation and taxes accumulated on Friday are subject to a separate obligation. Separate deposits are required because two different quarters are affected.

Example of Monthly and Semiweekly Schedules

Rose Co. reported Form 941 tax liabilities as follows:

2003 Lookback Period	2004 Lookback Period
3rd Quarter 2001 - \$12,000	3rd Quarter 2002 - \$12,000
4th Quarter 2001 - \$12,000	4th Quarter 2002 - \$12,000
1st Quarter 2002 - \$12,000	1st Quarter 2003 - \$12,000
2nd Quarter 2002 - \$12,000	2nd Quarter 2003 - \$15,000
<u>\$48,000</u>	<u>\$51,000</u>

Rose Co. is a monthly schedule depositor for 2003 because its tax liability for the four quarters in its lookback period (3rd quarter 2001 through 2nd quarter 2002) was not more than \$50,000. However, for 2004, Rose Co. is a semiweekly schedule depositor because its liability exceeded \$50,000 for the four quarters in its lookback period (3rd quarter 2002 through 2nd quarter 2003).

Deposits on Banking Days Only

If a deposit is due on a day that is not a banking day, the deposit is considered to have been made timely if it is made by the close of the next banking day. In addition to Federal and state bank holidays, Saturdays and Sundays are treated as nonbanking days. For example, if a deposit is due on a Friday and Friday is not a banking day, the deposit will be considered timely if it is made by the following Monday (if that Monday is a banking day).

Semiweekly schedule depositors have at least three banking days to make a deposit. That is, if any of the three weekdays after the end of a semiweekly period is a banking holiday, you will have one additional banking day to deposit. For example, if a semiweekly schedule depositor accumulated taxes for payments made on Friday and the following Monday is not a banking day, the deposit normally due on Wednesday may be made on Thursday (allowing three banking days to make the deposit).

Application of Monthly and Semiweekly Schedules

The terms “monthly schedule depositor” and “semiweekly schedule depositor” **do not** refer to how often your business pays its employees or even how often you are required to make deposits. The terms identify which set of deposit rules you must follow when an employment tax liability arises. The deposit rules are based on the dates wages are paid; **not** on when employment tax liabilities are accrued.

Monthly schedule example: Pine Co. has a monthly deposit schedule. It paid wages each Friday during January but did not pay any wages during February. Under the monthly schedule, Pine Co. must deposit the combined tax liabilities for the January paydays by February 15. Pine Co. does not have a deposit requirement for February (due by March 15) because no wages were paid and, therefore, it did not have a tax liability for the month.

Semiweekly schedule example: Green, Inc., which has a semiweekly deposit schedule, pays wages once each month on the last Friday of the month. Although Green, Inc. has a semiweekly deposit schedule, it will deposit just once a month because it pays wages only once a month. The deposit, however, will be made under the semiweekly deposit schedule as follows: Green, Inc.’s tax liability for the October 29, 2004 (Friday) payday must be deposited by November 3, 2004 (Wednesday). Under the semiweekly deposit schedule, liabilities for wages paid on Wednesday through Friday must be deposited by the following Wednesday.

\$100,000 Next-Day Deposit Rule

If you accumulate a tax liability (reduced by any advance EIC payments) of \$100,000 or more on any day during a **deposit period**, you must deposit the tax by the next banking day, whether you are a monthly or semiweekly schedule depositor. The deposit period for monthly schedule depositors is a calendar month. For semiweekly schedule depositors, the deposit periods are Wednesday through Friday and Saturday through Tuesday.

For purposes of the \$100,000 next-day deposit rule, **do not** continue accumulating tax liabilities after the end of a deposit period. For example, if a semiweekly schedule depositor has accumulated a liability of \$95,000 on a Tuesday (of a Saturday-through-Tuesday deposit period) and accumulated a \$10,000 liability on Wednesday, the \$100,000 next-day deposit rule does not apply. Therefore, \$95,000 must be deposited by Friday and \$10,000 by the following Wednesday.

In addition, once you accumulate at least \$100,000 in a deposit period, stop accumulating at the end of that day and begin to accumulate anew the next day. For example, Fir Co. is a semiweekly schedule depositor. On Monday, Fir Co. accumulates taxes of \$110,000 and must deposit this amount on Tuesday, the next banking day. On Tuesday, Fir Co. accumulates additional taxes of \$30,000. Because the \$30,000 is not added to the previous \$110,000 and is less than \$100,000, Fir Co. must deposit the \$30,000 by Friday following the semiweekly deposit schedule.

If you are a monthly schedule depositor and accumulate a \$100,000 tax liability on any day, you become a semiweekly schedule depositor on the next day and remain so for at least the rest of the calendar year and for the following calendar year.

Example of \$100,000 next-day deposit rule. Fir Co. started its business on April 5, 2004. On April 12, it paid wages for the first time and accumulated a tax liability of \$40,000. On April 19, Fir Co. paid wages and accumulated a liability of \$60,000, making its accumulated Form 941 tax liability total \$100,000. Because this was the 1st year of its business, the tax liability for its lookback period is considered to be zero, and it would be a monthly schedule depositor based on the lookback rules. However, because Fir Co. accumulated \$100,000 on April 19, it became a semiweekly schedule depositor on April 20. It will be a semiweekly schedule depositor for the remainder of 2004 and for 2005. Fir Co. is required to deposit \$100,000 by April 20, the next banking day.

Adjustments and the Lookback Rule

Determine your tax liability for the lookback period (four-quarter lookback period for Form 941 and calendar-year lookback period for Forms 943, 945, and CT-1) based on the tax liability as **originally** reported. If you made adjustments to correct errors on previously filed returns, these adjustments do not affect the amount of tax liability for purposes of the lookback rule. If you report adjustments on your current return to correct errors on prior period returns, include these adjustments as part of your tax liability for the current quarter. If you filed **Form 843**, Claim for Refund and Request for Abatement, to claim a refund for a prior period overpayment, your tax liability does not change for either the prior period or the current period quarter for purposes of the lookback rule.

Example of adjustments and the lookback rule for Form 941. An employer originally reported a tax liability of \$45,000 for the four quarters in the lookback period ending June 30, 2003. The employer discovered during January 2004 that the tax during one of the lookback period quarters was understated by \$10,000 and corrected this error with an adjustment on the 2004 1st quarter Form 941. This employer is a monthly schedule depositor for 2004 because the lookback period tax liabilities are based on the amounts originally reported and they were less than \$50,000. The \$10,000 adjustment is part of the 2004 1st quarter tax liability.

Accuracy of Deposits Rule

You are required to deposit 100% of your tax liability on or before the deposit due date. However, penalties will not be applied for depositing less than 100% if **both** of the following conditions are met:

1. Any deposit shortfall does not exceed the greater of \$100 or 2% of the amount of taxes otherwise required to be deposited and
2. The deposit shortfall is paid or deposited by the shortfall makeup date as described below.

Makeup Date for Deposit Shortfall

- **Monthly schedule depositor.** Deposit or pay the shortfall with your return by the due date of the return. You may pay the shortfall with your return even if the amount is \$2,500 or more.
- **Semiweekly schedule depositor.** Deposit by the earlier of:
 1. The first Wednesday or Friday that falls on or after the 15th of the month following the month in which the shortfall occurred or
 2. The due date of your return (for the return period of the tax liability).

For example, if a semiweekly schedule depositor has a deposit shortfall during February 2004, the shortfall makeup date is March 17, 2004 (Wednesday). However, if the shortfall occurred on the required April 2 deposit date for the March 27 tax liability, April 30 (due date of return) would come before the May 19 (Wednesday) shortfall makeup date. In this case, the shortfall would have to be deposited by April 30.

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