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David N. Plaskow • Feb. 18, 2016



When people receive their paychecks, be it weekly, bi-weekly or some other, they may notice the litany of deductions indicated on the pay stubs. They often dismiss them and simply accept that Uncle Sam takes his fair share—and they grudgingly acquiesce. But what does that alphabet soup (FICA, FUTA, SUI) mean, and is it different for employees of nonprofit organizations?

FICA

All employees of nonprofit organizations are required to pay Social Security and

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The tax rate for Social Security is 6.2% for the employer and 6.2% for the employee, or 12.4% total. The tax rate for Medicare is 1.45% for the employer and 1.45% for the employee, or 2.9% total. If an employee's wages in a calendar year are more than \$200,000 (or \$250,000 for married couples filing jointly), he/she must pay 0.9% more in Medicare taxes. There is no employer match for the Additional Medicare Tax.

FUTA

The federal unemployment tax (FUTA) pays unemployment compensation to workers who lose their jobs. FUTA tax should be reported and paid separately from other payroll taxes. FUTA tax is paid only from an organization's own funds. Employees do not pay this tax or have it withheld from their pay. Employers report FUTA annually on Form 940.

An organization that is exempt from income tax under section 501(c)(3) of the Internal Revenue Code is also exempt from FUTA and, therefore, the filing of Form 940 is not required. This exemption cannot be waived. "An organization needs to be classified as a 501(c)(3) to be exempt from paying FUTA tax," comments Stephen Dombroski, senior payroll tax compliance manager at Paychex, Inc. "This makes it extremely important for the organization to understand exactly what its 501(c) status is, as there are quite a few 501(c) nonprofit classifications in the Internal Revenue Code."

SUI

Regardless of whether subject to FUTA, the nonprofit may be liable for state unemployment insurance taxes (SUI). Because these taxes vary across states, it is important to check the SUI tax rules in the jurisdiction in which the nonprofit employees work.

As an alternative, a 501(c)(3) can file with the state to leave the SUI system and then

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liable by the IRS for failure to remit federal income tax and FICA tax withholdings, referred to as trust fund taxes,” notes Neil B. Becourtney, CPA, Tax Partner at CohnReznick LLP. “Responsible persons include corporate officers, directors and members of the board of trustees of a nonprofit organization.”

For additional information, visit your state’s division of taxation website or the “Tax Information for Charitable Organizations” section on www.irs.gov.

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