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BUSINESS OWNERS

Payroll taxes encompass various taxes that employers are required to withhold from employees' wages and pay to the appropriate tax authorities.

Nellie Akalp • Apr. 09, 2024



By Nellie Akalp.

As accountants and CPAs, dealing with payroll taxes is essential to managing finances for your business clients. Understanding the details of payroll taxes helps you better assist your clients in fulfilling their obligations and maximizing tax efficiency. The ever-changing complexities of payroll taxes can often seem

overwhelming, especially for business owners, so we've compiled an easy guide you

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- **Federal Income Tax Withholding:** Employers must withhold federal income tax from employees' wages based on their W-4 Forms and Internal Revenue Service (IRS) guidelines. The amount withheld depends on several factors, including filing status, exemptions, and taxable income.
- **Social Security Tax:** Employers and employees each contribute 6.2% of wages (up to a limit determined by the Social Security Administration—SSA) to fund Social Security benefits. The wage base limit is subject to annual adjustments.
- **Medicare Tax:** Employers and employees each contribute 1.45% of wages to fund Medicare, with no wage base limit. (High-income earners may be subject to an additional 0.9% Medicare tax on wages exceeding certain thresholds.)
- **Federal Unemployment Tax (FUTA):** Employers are responsible for paying FUTA tax, which funds unemployment benefits for workers who lose their jobs. The FUTA tax rate is 6% on the first \$7,000 of each employee's wages, but most employers receive a credit of up to 5.4% for paying state unemployment tax.
- **State and Local Taxes:** In addition to federal taxes, employers must withhold state and local income taxes (where applicable) based on the locations where the employees live and work. State unemployment taxes (SUTA) may also apply, with rates varying by state and the employer's experience rating.
- **Other Payroll Costs and Deductions:** In addition to taxes, businesses may incur other payroll costs and deductions, including workers' compensation insurance, state disability insurance, paid leave, health care costs, retirement plan contributions, reimbursements, stipends, and extra withholdings. Finally, some states and cities require employers to withhold special taxes for supplemental wages, such as bonuses and commissions.

Compliance and Reporting

Ensuring compliance with payroll tax regulations involves timely and accurate reporting to various tax authorities. As an accountant or CPA, you play a vital role in:

- Calculating and withholding taxes correctly.

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state, and local payroll taxes:

- **Federal Payroll Tax Rates:** The Social Security tax rate remains at 6.2% for both employees and employers.
 - **Maximum Taxable Income:** The SSA announced that the maximum earnings subject to Social Security taxes increased to \$168,600 in 2024.
- **Medicare** tax rate stays at 1.45% for both employees and employers. An additional Medicare tax of 0.9% applies to employees with income of \$250,000 (if they're married filing jointly), \$125,000 (if they're married filing separately), and \$200,000 for all other taxpayers.
- **FUTA** tax rates remain at 6% for employers on the first \$7,000 paid to each employee.
- **State and Local Payroll Taxes:** It's critical to stay current on state and local payroll taxes in the client's location/locations. State unemployment tax payments are based on a wage base, which varies by state.

Penalties for Missed or Late Payments

The IRS imposes penalties for missed or late payroll tax deposits, ranging from 2% to 15% of the unpaid amount, depending on the duration of the delay.

Businesses must stay informed about these changes to ensure compliance with federal, state, and local payroll tax regulations, avoid penalties, and maintain financial stability.

Out-of-State Employees

Your business clients who hire employees in other states must register with that state's tax department to contribute payroll and unemployment taxes. Your client will be assigned an employer tax account number for the state.

Employers are still accountable for withholding federal income taxes in the eight

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have reciprocity agreements:

- Arizona (with California, Indiana, Oregon, and Virginia)
- Illinois (with Kentucky, Michigan, and Wisconsin)
- Indiana (with Kentucky, Michigan, Ohio, Pennsylvania, and Wisconsin)
- Iowa (with Illinois)
- Kentucky (with Illinois, Indiana, Michigan, Ohio, Virginia, West Virginia, and Wisconsin (Note: Virginia and Ohio's agreements are conditional, so check with the states on those conditions))
- Maryland (with Pennsylvania, Virginia, West Virginia, and Washington, D.C.)
- Michigan (with Illinois, Indiana, Kentucky, Minnesota, Ohio, and Wisconsin)
- Minnesota (with Michigan and North Dakota)
- Montana (with North Dakota)
- New Jersey (with Pennsylvania)
- North Dakota (with Minnesota and Montana)
- Ohio (with Indiana, Kentucky, Michigan, Maryland, Pennsylvania, and West Virginia)
- Pennsylvania (with Indiana, Maryland, New Jersey, Ohio, Virginia, and West Virginia)
- Virginia (with Kentucky, Maryland, Pennsylvania, Washington, D.C., and West Virginia)
- Washington, D.C. (with Maryland and Virginia)
- West Virginia (with Kentucky, Maryland, Ohio, Pennsylvania, and Virginia)
- Wisconsin (with Illinois, Indiana, Kentucky, and Michigan)

Paying payroll taxes can be a daunting task for business owners, but with expert advice and guidance from their CPAs, it becomes more manageable. By understanding the complexities of payroll taxes and staying abreast of regulatory

changes, you can provide valuable assistance to your clients so they can meet their

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