

# M&Y INTERNATIONAL FINANCIAL SERVICES NEWSLETTER



## **M&Y International Financial Services**

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## **UNDERSTANDING PAYROLL TAX PAYMENT AND FILING**

Although Employers are required to make federal payroll tax payments to the government, as well as filing the proper reporting and informational returns. Employers must also provide employees and contractors with W-2 and 1099 reports explaining the compensation paid and withholding amounts.

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*“When you hire your first employee, you’ll need to get a federal employer identification number from the IRS if you do not already have one for your business. You may also need to get state and local tax numbers as well. In addition to assigning an employer identification number (EIN) for use on all your correspondence, deposits, returns, and other documents, the tax agencies will usually supply you with information about your specific payroll tax obligations.”*

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The rules can be complex and penalties for noncompliance severe, which is why the administration of payroll tax responsibilities is often outsourced by small businesses.

Properly handling payroll tax responsibilities involves making sure that:

- your federal and state taxes are paid and reported to the appropriate tax agencies
- you properly report income, amounts withheld, and amounts paid on behalf of employees and contractors
- you maintain the required federal and state records

Accurate and timely compliance is the key to avoiding payroll tax penalties!

## **Getting Started**

When you hire your first employee, you’ll need to get a federal employer identification number from the IRS if you do not already have one for your business. You may also need to get state and local tax numbers as well. In addition to assigning an employer identification number (EIN) for use on all your correspondence, deposits, returns, and other documents, the tax agencies will usually supply you with information about your specific payroll tax obligations and may supply the forms you’ll need to use when you deposit the taxes and file returns.

For federal payroll tax purposes, you will have both reporting and depositing obligations. Although these relate to the same liability, the tax returns and tax deposits are generally done separately:

- Federal tax deposits must be made on a periodic basis.
- Federal tax returns must be filed on a quarterly or annual basis.

Also, it is important to note that different deposit rules apply to income and FICA (social security) taxes and to FUTA (federal unemployment) taxes.

The multiple filing and due dates can be difficult to calculate and remember. In order to prevent missed deadlines, the IRS publishes an annual calendar of due dates: Tax Calendars for 2019 (Publication 509).

The IRS also provides a free, downloadable Tax Calendar that contains all the federal tax due dates for the year, as well as an electronic reminder system. This calendar is available on the IRS website.

- Federal Tax Deposits Must Be Made Electronically
- Federal tax deposits must be made electronically, unless the small business exception applies.

There are Three methods that an employer can use to electronically transmit tax payments:

- Use the Treasury Department's free Electronic Federal Tax Payment System (EFTPS), either online or the voice response system.
- Ask your financial institution to initiate an ACH Credit payment on your behalf.
- Ask a trusted third party, such as a tax professional or payroll service, to make the payment for you.

### **"Business days" and "legal holidays."**

What if the date that you're required to make a federal tax deposit falls on a nonbusiness day? In that case you have until the close of the next business day to make a timely deposit. A business day is any day other than a Saturday, Sunday, or legal holiday. For federal tax purposes, a legal holiday is federal holiday or a legal holiday in the District of Columbia. Other holidays, such as statewide legal holidays, do not delay the due date.

### **Income and FICA Taxes Deposit Due Dates**

The deposit schedule for your employment taxes depends upon the size of your employment tax liability. Generally, toward the end of each year, the IRS tells you which method you should use during the upcoming calendar year. There are four possible options:

- annually
- quarterly
- monthly
- semi-weekly

Quarterly deposits for small businesses: If your employment taxes for either the current quarter or the preceding quarter are less than \$2,500, you can remit the taxes with your quarterly (Form 941) return. You don't have to deposit them separately.

### **Maintaining Payroll Tax Records and Avoiding Penalties**

Once you've paid over your payroll taxes and filed any necessary returns and reports, your last significant obligation is to maintain records that substantiate the payroll taxes you paid.

For federal tax purposes, you must retain records for at least four years after the due date of the return or the date the taxes were paid, whichever is later. A similar record-keeping requirement exists in each state, with varying time periods.

Types of records. There is no particular form prescribed for properly retaining records. However, the records must be kept in a manner that will enable the IRS and your state tax authorities to ascertain whether any tax liability has been incurred and, if so, the extent of that liability.

**The types of information you should retain include:**

- the name, address, and Social Security number of each employee
- the total amount and date of each payment of compensation
- the period of service covered by each payment of compensation
- the portion of each payment of compensation that constituted taxable wages
- copies of each employee's withholding exemption certificate (Form W-4)
- dates and amounts of tax deposits you made
- copies of returns you filed
- copies of any undeliverable Form W-2



***The Value You Expect***