

Recording Employer Payroll Taxes

Employee Payroll Taxes

As we discussed, employers must pay to the government the taxes withheld from employee earnings. The amounts withheld are liabilities to the business (payables) until they are actually paid to the government. These employee payroll taxes include:

1. Federal Income Tax (based on withholding tables)
2. Social Security Tax (6.2% of earnings, with a cap on earnings of \$132,900 in 2019)
3. Medicare Tax (1.45% of earnings, no cap)

Depending on where a business operates, there may also be state and local taxes. These are handled in a similar manner to federal income taxes.

Employer Payroll Taxes

In addition, employers must pay several of their own payroll taxes. Employer payroll taxes are business expenses. Most employers pay four separate payroll taxes, including:

1. Employer Social Security Tax (same amount as employee pays)
2. Employer Medicare Tax (same amount as employee pays)
3. Federal Unemployment Tax (0.8% of earnings for the first \$7,000 earned)
4. State Unemployment Tax (5.4% of earnings for the first \$7,000 earned)

Employer payroll taxes are paid to the government at a later date. However, the liability is incurred when salaries are paid. Therefore, the transaction to record employer payroll taxes expense is journalized on the same date the payroll is journalized. The General Journal is used to record these items, as shown below.

SAMPLE PROBLEM

Record employer payroll taxes expense for an employee with earnings for the semimonthly pay period ended April 15, 2019 of \$750.00. The employee's earnings have not yet hit any of the tax caps.

Social Security Tax Payable: $\$750.00 \times 0.062 = \46.50

Medicare Tax Payable: $\$750.00 \times 0.0145 = \10.88

Unemployment Tax Payable - Federal: $\$750.00 \times 0.008 = \6.00

Unemployment Tax Payable - State: $\$750.00 \times 0.054 = \40.50

Payroll Taxes Expense: $\$46.50 + \$10.88 + \$6.00 + \$40.50 = \$103.88$

GENERAL JOURNAL

PAGE 1

2019 Date		Account Title	Doc. No.	Post. Ref.	Debit				Credit				
April	15	Payroll Taxes Expense	M63			1	0	3	88				
		Social Security Tax Payable									4	6	50
		Medicare Tax Payable									1	0	88
		Unemployment Tax Payable - Federal										6	00
		Unemployment Tax Payable - State									4	0	50

PRACTICE PROBLEM

Record employer payroll taxes expense for an employee with earnings for the semimonthly pay period ended April 15, 2019 of \$1,100.00. The employee's earnings have not yet hit any of the tax caps.

Social Security Tax Payable: _____

Medicare Tax Payable: _____

Unemployment Tax Payable - Federal: _____

Unemployment Tax Payable - State: _____

Payroll Taxes Expense: _____

GENERAL JOURNAL

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Date	Account Title	Doc. No.	Post. Ref.	Debit				Credit			

Reporting Withholding and Payroll Taxes

IRS Form W-2: Wage and Tax Statement

Each employer who withholds Federal Income Tax, Social Security Tax, and Medicare Tax from employee earnings must provide each employee with an annual report of these withholdings. The report shows total year's earnings and the amounts withheld for taxes for an employee. These amounts are obtained from the employee earnings records. The report is prepared on Form W-2 and must be sent to each employee by January 31 of the next year.

Note: this is the form that YOU receive every January and use to prepare YOUR personal income tax return. We'll go into more detail about preparing your own taxes next year!

IRS Form 941: Employer's Quarterly Federal Tax Return

Each employer must file a quarterly federal tax return showing the Federal Income Tax, Social Security Tax, and Medicare Tax due the government. This information is submitted every three months on Form 941. The information needed to prepare Form 941 is obtained from the employee earnings records.

Note: when preparing Form 941, the total earnings of all employees are multiplied by 12.4% for Social Security Tax (6.2% for the employee portion and 6.2% for the employer portion) and 2.9% for Medicare Tax (1.45% for the employee portion and 1.45% for the employer portion).

IRS Form W-3: Transmittal of Wage and Tax Statements

Form W-3 is sent to the Social Security Administration by February 28 each year. Form W-3 reports the previous year's earnings and payroll taxes withheld for all employees. Attached to Form W-3 is a copy of each employee's Form W-2.

Paying Withholding and Payroll Taxes

Employers must pay to the federal, state, and local governments all payroll taxes withheld from employee earnings as well as the employer payroll taxes. The payment of payroll taxes is referred to as a “deposit”. Most smaller businesses are considered monthly depositors and must make these payments at the end of every month. Payments are journalized in the Cash Payments Journal. Three separate transactions are completed: (1) Employee Income Tax, Social Security Tax, and Medicare Tax, (2) Unemployment Tax – Federal, and (3) Unemployment Tax – State.

SAMPLE PROBLEMS

Paid cash for liability for Employee Income Tax, \$757.00, Social Security Tax, \$1,451.38, and Medicare Tax, \$339.42; total \$2,547.80. Check No. 347.

CASH PAYMENTS JOURNAL

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2019 Date	Account Title	Ck. No.	Post Ref.	General		Accounts Payable DR	Purchases Discount CR	Cash CR
				Debit	Credit			
March 31	Employee Income Tax Payable	347		757	00			2 547 80
	Social Security Tax Payable			1 451	38			
	Medicare Tax Payable			339	42			

Paid cash for Federal Unemployment Tax liability for the quarter ended March 31, 2019, \$34.60. Check No. 348.

CASH PAYMENTS JOURNAL

PAGE 1

2019 Date	Account Title	Ck. No.	Post Ref.	General		Accounts Payable DR	Purchases Discount CR	Cash CR
				Debit	Credit			
March 31	Unemployment Tax Payable - Federal	348		34	60			34 60

Paid cash for State Unemployment Tax liability for the quarter ended March 31, 2019, \$233.55. Check No. 349.

CASH PAYMENTS JOURNAL

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2019 Date	Account Title	Ck. No.	Post Ref.	General		Accounts Payable DR	Purchases Discount CR	Cash CR
				Debit	Credit			
March 31	Unemployment Tax Payable - State	349		233	55			233 55

