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Tax Basics for Small Businesses

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Tax Basics for Small Businesses

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Section 1 – Tax Basics Overview

Taxes are one of the most important issues facing small businesses. And like a company's profits, its annual tax bill will, in part, reflect the owner's skills and knowledge. Business owners need to be sure that they are meeting all their responsibilities to the tax authorities — and also seizing every legitimate opportunity to reduce their taxes. This course only covers Federal Taxes but there are usually State Tax filing and withholding requirements as well. Use the following link to look up requirements for your state. State Tax Sites.

This overview will touch on several key subjects listed below, that the business owner should be aware of before continuing.

Form of Business Entity

Employee Identification Number (EIN)

Definition of Employees

Hiring New Employees

Form of Business Entity

A business can take several legal forms, and each has its pros and cons concerning taxes. The types of business entities usually encountered in small businesses are 1) Sole Proprietorship 2) Partnership 3) S Corporation 4) C Corporation 5) Limited Liability Company – LLC.

The following definitions are from LearnThat.com

A Sole Proprietorship has many advantages for the small business owner. You control it, all of the profits come to you, it's easy to form, and you make all the decisions. With this type of entity, you have complete freedom over operating your business, whereas in most of the other business types you have to report to other people and share decision-making. You also have less government restrictions and control when you are a sole proprietorship, so you have a little less to report back to Uncle Sam.

Disadvantages for a sole proprietorship include unlimited liability. If your business is sued, you and your personal assets are at risk. As a sole proprietorship it may be more difficult raising capital, you may have to use your own money or personal loan for the business.

Another popular option for forming a business is a Partnership. A partnership is an association of two or more people who share ownership and control over the business. As with a sole proprietorship, a partnership is easy to form. You should create a legally binding partnership agreement between all of the partners; otherwise you may end up in disagreement about the amount of time and energy spent by each party in the business.

The partnership agreement should include how decisions are made, how the profits should be distributed, how disputes should be resolved, how new partners will be admitted, how existing partners can back out of the agreement, and what steps are necessary to dissolve the partnership.

The advantages for a partnership include its easy formation, profits flowing directly to the owners, benefit of more than one person working the business, and a better chance of raising capital from more than one person.

The disadvantages of a partnership include the liability of all of the partners in case of judgments against the business. Also, the partners are liable for the other partners' actions. Profits of the business have to be shared with other people, disagreements could occur between partners, and the partnership may dissolve on death or withdrawal of one of the partners.

A C Corporation is a state-sanctioned entity that is a separate entity then those who own it. A corporation can be taxed, sued, and it can enter into contractual agreements. A Corporation sells shares to its owners who elect a board of directors to oversee the company. A Corporation does not dissolve when it changes ownership; it has a life of its own. Generally, shareholders cannot be held liable for a corporation or its debts, up to their investment in the company. A Corporation's officers can be held liable for their failure to perform an action, such as paying taxes. Corporations can raise money by selling stock. A Corporation can also deduct the cost of benefits for its officers and employees. Additionally, a corporation under certain circumstances can elect to become an S Corporation, with similar taxation to a partnership. This election allows shareholders to treat earnings and profits as distributions and has them pass directly to their personal tax returns. The only catch is that if you are an employee, you have to pay yourself "reasonable compensation" for any work you perform for the company.

Disadvantages of a C Corporation include double taxation for some owners. A Corporation is taxed at the corporate level and then again at the personal level for any dividends it pays out. The filing to become an S Corporation relieves this as stated in the previous paragraph. The process to incorporate also takes a lot of paperwork and time, and in most states, money. This process is a lot more complicated than the other forms of business, and all levels of government monitor it much more closely.

Limited Liability Companies (LLC) combine the advantages of corporations of limited liability with the control and tax advantages of a partnership. A Limited Liability Company is more complicated than a normal partnership in its formation. The owners are the members and the life of the LLC is stated when the forms are filed. In general, the LLC is taxed as a partnership.

The advantage of an LLC is the limited liability of its controlling parties. If the LLC is sued, oftentimes the owners do not have their personal assets at risk. In a general partnership, the owners' assets can be at risk if the company is sued.

The disadvantages include strict IRS rules as to when you can be taxed as an LLC and the rules you need to meet in different states to become an LLC

Summary - The following table from QuickInc.com is a quick look comparison of the different legal business entities. Of course, in any important business decision, it is smart to talk to your tax attorney and lawyer before deciding on which form of business entity you need to become. There are many long-term implications to choosing the right or wrong business type, so be sure to check with the professionals before making this important decision.

Issue	C Corporation	S Corporation	LLC	Partnership	Sole Proprietor
Limited Liability for Owners	Yes	Yes	Yes	No	No
Double Taxation of Income	Yes	No	No	No	No
Positioned for Growth in Number of Owners	Yes	No	No	No	No
Raising Capital	By selling shares of stock	By selling shares of stock	Sell interests subject to operating agreement	Partners provide capital or add more partners	Individual owner puts money into business
Continuous Life of Entity	Yes	Yes	Usually	Dissolved by death of partner	Depends on sole proprietor
Transfer of Ownership Interest	Easy	Easy	Easy or Difficult, by choice	May be difficult	May be difficult
Tax Treatment of Owner's Fringe Benefits	Good	Poor	Poor	Poor	Poor
Ability to Choose Tax Year	Yes	Limited	Limited	Limited	Limited

Employer Identification Number (EIN)[4] (See IRS Publication 15)

The following is from Wikipedia, the free encyclopedia

Applicable to the United States, an **Employer Identification Number** or **EIN** is the corporate equivalent to a Social Security Number, although it is issued to anyone, including individuals, who have to pay withholding taxes on employees.

Other Names

Also known as the **Tax Identification Number** (TIN), **Federal Employer Identification Number** (FEIN) or the **Federal Tax Identification Number**, it is a unique nine-digit number assigned by the Internal Revenue Service (IRS) to business entities operating in the United States for the purposes of identification. When the number is used for identification rather than employment tax reporting, it is usually referred to as a **TIN**, and when used for the purposes of reporting employment taxes, it is usually referred to as an *EIN*. We will use the latter term in this course.

Comparison to Social Security Numbers

Similar in purpose to the Social Security Number assigned to individuals, EINs are used by employers, sole proprietors, corporations, partnerships, non-profit organizations, trusts and estates, government agencies, certain individuals and other business entities. The IRS uses this number to identify taxpayers that are required to file various business tax returns. Individuals who are employers may choose to either obtain an EIN or use their Social Security Number for the purpose of reporting taxes withheld on behalf of their employees.

EIN Format

An EIN is usually written in the form 00-0000000 whereas a Social Security Number is usually written in the form 000-00-0000 in order to differentiate between the two.

Non-Profit Organizations and EINs

The issuance of an EIN to a non-profit organization is separate and distinct from the organization actually obtaining non-profit status with the IRS. Each Chapter of a National Non-profit Organization must have its own EIN, but the central organization may file for a Group Exemption.

Other types of Identification Numbers are shown below:

- Cage Code issued by the Defense Logistics Information Service (DLIS) to identify suppliers to the Department of Defense.
- D.U.N.S. number issued by Dun & Bradstreet and required for certain U.S. government contractors and federal grant recipients
- Confidential T.P.I.N. number issued by the Central Contractor Registry of the U.S. Government

Definition of Employees[2] (See IRS Publication 15)

Before you can calculate your payroll tax liabilities, you must first determine which of the people who work for you, if any, are "employees" for whom you must withhold and pay taxes. If none of your workers are classified as employees, you generally won't have to worry about payroll taxes at all!

Each federal and state law imposing a payroll tax has its own definition of the types of workers to which the tax applies. However, as a practical matter, the basic governing standard under all of these laws is whether the individual who performs services for you is properly characterized as an employee, as opposed to an independent contractor, under so-called "common law rules."

In general, these rules say that your workers must be treated as employees if you have the right to direct and control *the way* they do their work, rather than merely *the results* of the work.

- Distinguishing common-law employees from contractors can be difficult, since every working relationship must be judged on its own particular facts. There are a number of tools that can help you, including the IRS's 20-factor test, the IRS safe-haven rules, and the opportunity to get an IRS ruling on the issue.
- Some independent contractors are taxable as employees, if they perform certain types of duties.
- Some employees may be treated as nontaxable contractors, namely, real estate agents and direct sellers.
- Some family members are nontaxable, even if they are your employees.

Once your workers are properly classified as being employees, the fact that they may work for you only on a part-time or temporary basis or that they may be minors generally won't relieve you from the obligation to withhold and pay taxes on their wages. Again, the key issue is whether the workers are

common-law employees, and that determination is unaffected by the number of hours the workers put in or by their age.

Warning

You take on a significant risk if you improperly treat an employee as an independent contractor.

The risk is that the IRS and your state tax authorities will hit you with penalties that at a minimum make you personally liable for paying, with interest, both the taxes you should have paid and the taxes you should have withheld. So, if you have any doubts as to the proper classification of a worker, consult your accountant or other tax professional. Or, request an IRS determination of the worker's correct classification.

Hiring New Employees

Great diligence is advisable when hiring new employees. The following actions should be taken to minimize problems when engaging new personnel for your company:

1. Have prospective employee provide a resume or fill out an employment application.
2. Conduct a face to face interview
3. Ask for and Check references and previous employers. Previous employers are restricted, as to what they can and can't say about former employees, but positive comments are not so strictly limited.
4. Pull a credit report if appropriate for the prospective decision (i.e. handling money or in a position to abuse company assets).
5. Ask for picture identification (2 forms) such as a driver's license and a passport to determine eligibility for employment.

Once hired, the following action should be taken to have a new employee start employment with your company:

1. Provide full name, address, contact information and social security number.
2. Fill out W4 withholding form
3. Fill out I-9 form Employment Eligibility Verification stating eligibility to work
4. Fill out any insurance or other benefit applications
5. Fill out direct deposit information, if offered

END SECTION 1

Section 2 – Accounting System[5]

In small business offices around the country sits shoeboxes or file folders full of business receipts, invoices, and accounting data. As the months roll by and the data accumulates, your business is sitting on a growing problem. Learn before it's too late why your accounting system can cost your business and more. For many start-ups and sole proprietors, the shoebox or file box was a temporary fix prior to setting up an accounting system. But with procrastination the box can become the nemesis of your small business.

What is an Accounting System?

An accounting system for your business is not as simple as a shoebox or file folder. These items will collect and organize your important business information, but you need to look at what the numbers are telling your business. An accounting system will take your business beyond record keeping and provide important financial indictors. An accounting system will have the following parts:

Data Collection: Includes business transactions and operations data.

Data Organization: A method of sorting data by date and transaction type.
Accounting Database: Data entry into a spreadsheet or accounting software program will form the basis of accounting information.
Financial Statements and Reports: Balance sheets, income statements, budgets, and timetables comparisons will aid in running your business.
Analysis: Regular review of main controls to avoid problems and capitalize on opportunities.

If your small business accounting system is focused only on collection and organization until year-end than discover why you need to change over to a complete system.

8 Reasons for Accounting System Upgrade

Expense Creep: It starts off innocently as you begin to add more regular expenses to your operations. Without monthly tracking of expenses and costs, you cash flow can quickly dry up.

Overdue Accounts: Ignoring the need for an accounting system can make tracking accounts receivables a guessing game. Don't be in the business of bank lending. Misplacing a 90-day overdue account is costing you money.

Cash Flow Crunch: Every business will experience the highs and lows of cash cycles. To overcome periods of cash shortages or to get needed funding, an accounting system will help you identify who owes you money and places for expense cuts. Create a full financial summary every quarter.

Lack of Data Security: How safe is your shoebox? Is it reinforced steel, fireproof and waterproof against major disasters? Important financial information needs to be stored on a removable disk and on a secured offsite location. Never take a chance assuming it can't happen to you.

Added Costs: Having an accountant or bookkeeper organize and compile your accounting data at year-end can be costly. Organize your invoicing, accounts payable, accounts receivable and most important know your cash flow.

Audit Risks: Surviving an IRS audit can be easier if all financial matters of your small business are in order. Providing an auditor with financial statements, organized files, and well tracked transactions will make everything easier for all parties involved.

Bankruptcy: With the majority of businesses failing in the first 5 years, poor financial management remains one of the top reasons for failure. It is your responsibility as a small business owner to maintain and regularly assess your financials. Not putting an accounting system in place early during your startup can mean the end of business. Proper accounting can help you see money losing strategies before it is too late.

Financing Difficulty: Don't bring a shoebox of invoices and receipts to your banker or investor meeting. The professional appearance of your company's books is part of a winning strategy to financing.

The price of business ownership comes with the responsibility of establishing an accounting system. On the plus side you feel more control over your business, less stress, and better profitability.

END SECTION 2

Section 3 - Calendar of Tax Events & Filing Deadlines

Using a Corporate Calendar is an excellent and handy method for small business owners to keep track of filing requirements and deadlines. This can be in true calendar form with entries on key dates or merely a list of actions and/or requirements with associated filing dates and any special instructions. An list of significant dates provided in IRS Publication 15 is shown below.

Note. *If any date shown below falls on a Saturday, Sunday, or federal holiday, use the next business day. A statewide legal holiday delays a filing due date only if the IRS office where you are required to file is located in that state. For any due date, you will meet the "file" or "furnish" requirement if the form is properly addressed and mailed First-Class or sent by an IRS-designated private delivery service on or before the due date.*

By January 31

Furnish Forms 1099 and W-2.
File Form 940 or 940-EZ.
File Form 945.

By February 15

Request a new Form W-4 from exempt employees.

On February 16

Exempt W-4 Forms expire.

By February 28

File Forms 1099 and 1096.
File Forms W-2 and W-3.
File Form 8027.

By March 31

File electronic (not magnetic media) Forms 1099, W-2, and 8027.

By April 30, July 31, October 31, and January 31 (of following year)

Deposit FUTA taxes.
File Form 941.
(Form 944 on January 31 of following year)

Before December 1

New W-4 Forms.

On December 31

Form W-5 expires.

Notice: Even though it is not a tax issue, you should check with your Department of State to see if and when you are required to file an Annual Report. Fines can be significant if not filed on time,

END SECTION 3

Section 4 - Wages and Other Compensation

Wages subject to federal employment taxes generally include all pay that you give to an employee for services performed. The pay may be in cash or in other forms. It includes salaries, nonqualified deferred compensation recognized under section 409A, vacation allowances, bonuses, commissions, and fringe benefits. It does not matter how you measure or make the payments. Amounts an employer pays as a bonus for signing or ratifying a contract in connection with the establishment of an employer-employee relationship and an amount paid to an employee for cancellation of an employment contract and relinquishment of contract rights are wages subject to social security, Medicare, and federal unemployment taxes and income tax withholding. Also, compensation paid to a former employee for services performed while still employed is wages subject to employment taxes. See IRS Publication 15 for other details on this topic.

END SECTION 4

Section 5 – W-4 Forms Employee's Withholding Allowance Certification

The W-4 Form (see below) is completed by an employee so the employer can withhold the correct amount of federal income tax from your pay. When you are hired for a new job, you will be required to complete a W4 Form to let your employer know how much tax to withhold.

All employers should have an IRS Form W-4 on file for each of your employees. The Form W-4 tells you, as an employer, how many withholding allowances to use when you deduct Federal income tax from the employee's pay.

Prior to starting employment, you can fill out a PDF version form online and print it out. It's also a good idea to review withholding amounts on a regular basis to ensure the appropriate amount of tax is withheld.

Separate here and give Form W-4 to your employer. Keep the worksheet(s) for your records.

Form **W-4** Department of the Treasury Internal Revenue Service

Employee's Withholding Allowance Certificate

▶ Whether you're entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.

OMB No. 1545-0074

2019

1 Your first name and middle initial | Last name | 2 Your social security number

Home address (number and street or rural route)

3 ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate.
Note: If married filing separately, check "Married, but withhold at higher Single rate."

City or town, state, and ZIP code

4 If your last name differs from that shown on your social security card, check here. You must call 800-772-1213 for a replacement card. ▶ ☐

5 Total number of allowances you're claiming (from the applicable worksheet on the following pages) 5

6 Additional amount, if any, you want withheld from each paycheck . . . . . 6 $

7 I claim exemption from withholding for 2019, and I certify that I meet **both** of the following conditions for exemption.
- Last year I had a right to a refund of **all** federal income tax withheld because I had **no** tax liability, **and**
- This year I expect a refund of **all** federal income tax withheld because I expect to have **no** tax liability.

If you meet both conditions, write "Exempt" here . . . . . ▶ 7

Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.

Employee's signature
(This form is not valid unless you sign it.) ▶ **Date** ▶

8 Employer's name and address (**Employer:** Complete boxes 8 and 10 if sending to IRS and complete boxes 8, 9, and 10 if sending to State Directory of New Hires.) | 9 First date of employment | 10 Employer identification number (EIN)

To know how much federal income tax to withhold from employees' wages, you should have a Form W-4, Employee's Withholding Allowance Certificate, on file for each employee. Encourage your employees to file an updated Form W-4 every year, especially if they owed taxes or received a large refund when filing their last tax return. Advise your employees to use the Withholding Calculator on the IRS website at www.irs.gov/individuals for help in determining how many withholding allowances to claim on their Form W-4. W-4 forms must be renewed by February 15th of each year. The replacement Form W-4 becomes effective no later than the payroll period ending on or after the 30th day from the date it is received. If an employee's tax status changes they are required to submit a new Form W-4 to reflect those changes, so that the proper amount is withheld.

END SECTION 5

Section 6 - Withholding of Taxes

If you hire employees, you'll have to pay -- or withhold from their salaries -- a variety of taxes. The below excerpt from IRS Publication 15 Employer's Tax Guide gives a concise summary of the tax responsibilities you as an employer must fulfill.

Employer Responsibilities: The following list provides a brief summary of your basic responsibilities. Because the individual circumstances for each employer can vary greatly, responsibilities for withholding, depositing, and reporting employment taxes can differ. Each item in this list has a page reference to a more detailed discussion in this publication.

New Employees: Page

- ☐ Verify work eligibility of employees 4
- ☐ Record employees' names and SSNs from social security cards 9
- ☐ Ask employees for 2007 Form W-4 14

Each Payday:

- ☐ Withhold federal income tax based on each employee's Form W-4 14
- ☐ Withhold employee's share of social security and Medicare taxes 16
- ☐ Include advance earned income credit payment in paycheck if employee requested it on Form W-5 17
- ☐ Deposit:
  - Withheld income tax
  - Withheld and employer social security taxes
  - Withheld and employer Medicare taxes . . . 19

  Note: *Due date of deposit generally depends on your deposit schedule (monthly or semiweekly).*

Annually (By January 31)

- ☐ File Form 944 if required (pay tax with return if not required to deposit) 24

Quarterly (By April 30, July 31, October 31, and January 31): Page

- ☐ Deposit FUTA tax if undeposited amount is over $500 29
- ☐ File Form 941 (pay tax with return if not required to deposit) 24

Annually (See *Calendar* for due dates):

- ☐ Remind employees to submit a new Form W-4 if they need to change their withholding . . . 14
- ☐ Ask for a new Form W-4 from employees claiming exemption from income tax withholding 14
- ☐ Reconcile Forms 941 (or Form 944) with Forms W-2 and W-3 25
- ☐ Furnish each employee a Form W-2 2
- ☐ File Copy A of Forms W-2 and the transmittal Form W-3 with the SSA 2
- ☐ Furnish each other payee a Form 1099 (for example, Forms 1099-R and 1099-MISC) . . 2
- ☐ File Forms 1099 and the transmittal Form 1096 2
- ☐ File Form 940 29
- ☐ File Form 945 for any nonpayroll income tax withholding 2

The following paragraphs give a more detailed explanation of the taxes and withholding required by employers.

1. Social Security (FICA), Medicare and Federal and State Income Taxes

- **Withholding.** Social Security (FICA), Medicare and federal and state income taxes must be withheld from employees' pay.
- **Employer matching.** You must match the FICA and Medicare taxes and pay them along with your employees.
- **Unemployment tax.** Federal and state unemployment taxes add to your bill.

2. Quarterly Estimated Taxes

This area trips up many an entrepreneur and is especially vexing for home-based businesses. Failure to keep up with your estimated tax bill can create cash flow problems as well as the potential for punishing IRS penalties. The antidote is simple - know your responsibilities:

- **Who should pay?** You probably must pay quarterly estimated taxes if you expect your total tax bill in a given year to exceed $500.

- **How much should you pay?** By the end of the year, you must pay either 90 percent of the tax you will owe or 100 percent of last year's tax (the figure is 110 percent if your income exceeds $150,000). An accountant can help you calculate your payments. Otherwise, you can subtract your expenses from your income each quarter and apply your income tax rate (and any self-employment tax rate) to the resulting figure (your quarterly profit).

3. **Sales Taxes**
   Most services remain exempt from sales tax, but most products are taxable (typical exceptions are food and drugs). States keep adding to the list of taxable services, however, so check with your state's department of taxation to find out if you should charge sales tax on your services. If you do sell a product or service that is subject to sales tax, you must register with the state's tax department. Then you must track your taxable and nontaxable sales and include that information on your sales tax return.
4. **Deadlines**
   As a salaried worker, you just have to remember one or two tax-related dates: April 15, and perhaps December 31. But other dates may matter just as much or more when you run your own business:

   - **Annual returns.** Most annual returns are due April 15 for unincorporated companies and S corporations. C corporations must file annual corporate returns within two-and-a-half months after the close of their fiscal year.

   - **Estimated taxes.** Estimated taxes are due four times a year: April 15, June 15, September 15 and January 15.

   - **Sales taxes.** Sales taxes are due quarterly or monthly, depending upon the rules in your state.

END SECTION 6

Section 7 - Payroll Period

Your payroll period is a period of service for which you usually pay wages. When you have a regular payroll period, withhold income tax for that time period even if your employee does not work the full period.

No regular payroll period. When you do not have a regular pay period, withhold taxes as if you paid wages for a daily or miscellaneous payroll period. Figure the number of days (including Sundays and holidays) in the period covered by the wage payment. If the wages are unrelated to a specific length of time (for example, commissions paid on completion of a sale), count back the number of days from the payment period to the latest of:

- The last wage payment made during the same calendar year.
- The date employment began, if during the same calendar year, or
- January 1 of the same year.

Employee paid for period less than 1 week. When you pay an employee for a period of less than one week, and the employee signs a statement under penalties of perjury, indicating that he or she is not working for any other employer during the same week for wages subject to withholding, figure withholding based on a weekly payroll period. If the employee later begins to work for another employer for wages subject to withholding, the employee must notify you within 10 days. You then figure withholding based on the daily or miscellaneous period.

This section is from Section 8 Payroll Periods in of IRS Publication 15.

END SECTION 7

Section 8 - Depositing Taxes

Any company that is required to withhold taxes from employees is required to deposit these withholding amounts along with the required employer share of Medicare and Social Security on a period basis through the year. The frequency of deposit can vary from as little as yearly to as frequently as weekly. This frequency depends on several factors:

1) Companies with very little income and tax liability less than $1000 per year only have to deposit at the end of the tax year.

2) Companies with tax liabilities of greater than $ 1000

When to Deposit - There are two deposit schedules—monthly or semi-weekly—for determining when you deposit social security, Medicare, and withheld income taxes. These schedules tell you when a deposit is due after a tax liability arises (for example, when you have a payday). Before the beginning of each calendar year, you must determine which of the two deposit schedules that you are required to use. The deposit schedule that you must use is based on the total that you reported on Form 941 during a look-back period discussed below. Your deposit schedule is not determined by how often you pay your employees or make deposits. See special rules for Forms 944 and 945 below. See *Application of Monthly and Semiweekly Schedules* in IRS Publication 15.

END SECTION 8

Section 9 - Federal Unemployment Tax

The Federal Unemployment Tax Act (FUTA), with state unemployment systems, provides for payments of unemployment compensation to workers who have lost their jobs. Most employers pay both a federal and a state unemployment tax. A list of state unemployment tax agencies, including addresses and phone numbers, is available in Publication 926, Household Employer's Tax Guide. Only the employer pays FUTA tax; it is not withheld from the employee's wages. For more information, see the Instructions for Form 940.

END SECTION 9

Section 10 - Filing Form 941 or 944

Form 941 - Each quarter, all employers who pay wages subject to income tax withholding (including withholding on sick pay and supplemental unemployment benefits) or social security and Medicare taxes must file Form 941, Employer's Quarterly Federal Tax Return, by the last day of the month that follows the end of the quarter. See Instructions for Form 941 for more details.

Form 944. If you receive written notification that you qualify for the Form 944 program, you must file Form 944, instead of Form 941. If you received this notification, but prefer to file Form 941, you can request to have your filing requirement changed to Form 941 if you satisfy certain requirements. See the Instructions for Form 944 for details. Employers who must file Form 944 have until the last day of the month that follows the end of the year to file Form 944.

Please review Section 12 of IRS Publication 15 for details on exceptions and other considerations for filing these forms.

END SECTION 10

Section 11 - Filing the W2 & W3 Forms and Information returns (1098, 1099, etc.)

If you have or employees or use independent contractors, you will have to provide them with either a Form W2 (for employees) or a Form 1099-MISC (for independent contractors) showing how much money they earned working for you during 2006. If you use a payroll service to process your company's payroll, they will usually prepare these forms for your workers. However, if you are doing it yourself you will need to be aware of when these forms are due and where they are filed.

Form W2 – Wage and Tax Statement

Form W2 will show an employee how much he or she earned working for your company during the year. It will also show the amount of federal, Social Security, Medicare, state (if applicable) and local (if applicable) taxes that were withheld. For the 2006 tax year, employers must furnish Form W2 to each employee no later than January 31, 2007.

Employers must also file copies of Form W2 and Form W3 (which summarize all of the Form W2 data) with the Social Security Administration (SSA). If the W2s and W3 are being filed

by paper, they need to be submitted to the SSA by February 28, 2020 for the 2019 tax year. If the forms are filed electronically, employers have until March 31, 2020 to file them with the SSA.

Instructions on how to file Form W2 and Form W3 electronically, by paper or on disk can be found on the SSA website[6].

Form 1099-MISC (Miscellaneous Income)

Form 1099-MISC (Miscellaneous Income) is used to report aggregate payments of $600 or more to independent contractors who provide trade or business services. The total amount of compensation paid should be reported in Box 7 (Non-employee Compensation) of the Form 1099-MISC. The form should be furnished to the independent contractor by January 31, 2020 for payments made during 2019.

Employers must file copies of Form 1099-MISC as well as Form 1096 (the summary and transmittal form for Form 1099-MISC) with the IRS by February 28, 2020 if being filed by paper, or by March 31, 2020 if being filed electronically.

If you are filing your 1099s and 1096 by paper, you must file red scanable copies of the forms with the IRS. These red forms can be obtained for free from the IRS by mail (the forms may be ordered online or by calling 1-800-829-3676) or at your local IRS office. You can also buy red forms at your local office supply store.

Note: The instructions for Form W2 indicate that you must file red scannable copies of Form W2 and Form W3 with the SSA. However, you can file W2s and W3s printed off your printer in black ink with the SSA and they will be accepted without penalty. They may also be filed electronically. In fact, if you have more than 250 employees, the W2s and W3s must be filed electronically. The IRS still requires the 1099s to be filed with the red forms. This is because the SSA updated their computer equipment to accept computer printed W2s and W3s, while the IRS updated their computer equipment (twice) and it still doesn't work.

Form W2/W3 and Instructions

Form W2

Form W3

Instructions for Form W2 & W3

Form 1099-MISC and 1096 and Instructions

Form 1099-MISC

Form 1096 (includes instructions)
Instructions for Form 1099-MISC

END SECTION 11

Section 12 - Filing Your Business Tax Return

Depending on the type of business entity you have formed, there are different filing requirements for your business tax return. The table that follows is a concise summary of these requirements, what forms to file and filing deadlines.

If you are liable for:	Then use Form:	Due by:
Income tax	1040 and Schedule C or C-EZ	15th day of 4th month after end of tax year.
Self-employment tax	Schedule SE	File with Form 1040
Estimated tax	1040-ES	15th day of 4th, 6th, and 9th months of tax year, and 15th day of 1st month after the end of tax year.
Social Security and Medicare taxes and income tax withholding	941 or 944 943 (Agriculture Taxes) 8109 (to make deposits)	April 30th, July 31, October 31, and January 31. See Publication 225 See Publication 15
Providing information on social security and Medicare taxes and income tax withholding	W-2 (to employee) W-2 and W-3 (to the Social Security Administration)	January 31 Last day of February (March 31 if filing electronically).
Federal Unemployment (FUTA) tax	940 8109 (to make deposits)	January 31. April 30, July 31, October 31, and January 31, but only if the liability for unpaid tax is more than $500.00
Filing information returns for payments to non-employees and transactions with other persons	See Information Returns	Forms 1099-to the recipient by January 31 and to the IRS by February 28 (March 31 if filing electronically). Other forms - See the General Instructions for Forms 1099, 1098, 5498, and W-2G.
Excise tax	See Excise Taxes	See the instructions to the form.
Partnership taxes	1065	April 15 following the close of the partnership's tax year if it's accounting period is the calendar year. Fiscal Year Partnership - 15th day of the 4th month following the close of its fiscal year. Provide each partner with Sch K-1 (Form 1065). See Partnerships
S-Corporation taxes	1120-S 1120-W (Estimated Taxes - Corporations Only and 8109)	15th day of the 3rd month following the date the corporation's tax year ended as shown at the top of Form 1120S. Calendar year - March 15, 2004. If due date falls on a Saturday, Sunday, or legal holiday, file on the next business day. If the S corporation election was terminated during the tax year, file Form 1120S for the S corporation's short year by the due date (including extensions) of the C corporation's short year return.

If you are liable for:	Then use Form:	Due by:
		See S-Corporations
Corporate taxes	1120 or 1120-A 1120-W (Estimated Taxes - Corporations Only and 8109)	15th day of the 3rd month after the end of its tax year. New corporation filing a short-period return -15th day of the 3rd month after the short period ends. Corporation that has dissolved -15th day of the 3rd month after the date it dissolved. See Corporations
Limited Liability Company (LLC)	Only member of LLC is an individual - LLC income and expenses are reported on Form 1040, Schedule C, E, or F. If you prefer to file as a corporation, Form 8832 must be submitted. Only member of the LLC is a corporation, income and expenses are reported on the corporation's return, usually Form 1120 or Form 1120S. Most LLCs with more than one-member file a partnership return, Form 1065. If you would rather file as a corporation, Form 8832 must be submitted. No Form 8832 is needed if filing as a partnership.	See Publication 3402 or Publication 583

END SECTION 12

Section 13 - Retirement, IRAs and 401K Accounts

The following article excerpts are from the March 2005 on-line issue of the Journal of Accountancy and gives an excellent overview and guidance for picking the appropriate retirement plan, if any, for your company.

IRAs and 401(k)s:

How to Pick the Best Plan [7]

BY CYNTHIA SCARINCI

■ **RETIREMENT PLANS ARE OFFERED BY** a variety of providers, including financial institutions, insurance companies and payroll service providers. But adherence to IRS regulations is the responsibility of the business owner.

■ **ANY BUSINESS WITH ONE EMPLOYEE** that does not have any other type of retirement plan can set up a simplified employee pension-IRA plan. All contributions to SEPs come from the employer. SEPs are easy to set up and maintain, and do not require an annual tax return.

■ **THERE ARE TWO TYPES OF SAVING INCENTIVE** match plans for employees: the SIMPLE IRA and the SIMPLE 401(k). They require little documentation and no annual tax filing. But employers must make annual contributions to employee accounts. Employer and employee contributions both are vested immediately.

■ **THE TRADITIONAL 401(k) PLAN** carries the most reporting requirements and is the costliest to administer. It is better for employees because they can make contributions every year, even if the employer does not. Annual compliance testing and a required annual tax return complicate administration of 401(k) plans.

■ **SAFE HARBOR 401(k) PLANS** are an attractive alternative for a business that wants a 401(k) plan but does not want to or is not able to satisfy the annual discrimination testing required by traditional plans. The price to be paid is a safe harbor contribution made to all employee accounts.

CPAs with small business clients—or those with decision-making responsibilities for smaller companies—often are called upon to evaluate pension plan options. This article will help by outlining the key features of retirement plans that can be implemented by small businesses: the simplified employee pension-IRA (SEP-IRA); the savings incentive match plan for employees (SIMPLE), IRA and 401(k); the traditional 401(k); and the safe harbor 401(k).

Top-Heavy Testing and Key Employees

In order to ensure that all retirement plans have a representative balance of participants and are not dominated by higher-paid employees, they are subject to annual top-heavy testing (IRC section 416(g)) .If the plan becomes top-heavy, the employer must provide a minimum contribution to all non-key employees, based on how much they have contributed to the plan—out of their own salaries or in the form of employer contributions—during the year. CPAs therefore should remind their small business clients that it's up to the plan administrator to keep a keen eye on account values throughout the plan year and notify the employer if the plan is in danger of becoming top-heavy.

A "key employee" is one who at any time during the preceding plan year was:

- A 10% owner
- Received annual compensation exceeded $150,000
- Manages or directs 10% or more of companies activities

The IRS considers a plan "top-heavy" if the account values for key employees exceed 60% of the account values for all employees. For example: A small business employs a total of 11 people, three of whom meet the criteria for "key employees." If the account values for the three key employees total $15,000, while the account values for all 11 employees total $24,000, the plan would be considered top-heavy because the account values for the key employees equals 63% of the account values for all employees.

To make it less likely that a plan would be deemed top-heavy, the EGTRRA narrowed the definition of key employees by nearly doubling the compensation limit from $67,500 in 2000 to $130,000 in 2001. It also allowed companies to count matching contributions toward satisfying the minimum contribution requirements.

The top-heavy rules are particularly harsh on small businesses that employ family members; they discriminate by treating all family members as key employees, regardless of salary level and percentage of ownership (IRC section 318). This makes it difficult for family-based small businesses to pass top-heavy testing and continues to be a major deterrent to their implementing pension plans.

ONE SIZE DOESN'T FIT ALL

In recommending and researching retirement plan options; CPAs should pay special attention to the unique needs of the small business employer. In addition to size constraints, individual businesses face varying earnings, profit levels, number and age of employees, industry, business location, employee turnover, regulations, etc. A major concern is the uncertainty of future revenues. Without reliable, consistent earnings, a business cannot support a plan that requires an annual commitment to contributions by the employer. Pension plans are far from a "one-size-fits-all" product. CPAs should ensure that any plan selected is well-suited for the individual needs of the employer under its current circumstances and that it is flexible enough to remain effective if circumstances should change.

The SEP-IRA

Best suited for: Small businesses that do not have any other type of retirement plan, have a small part-time staff and are comfortable completely funding the company pension plan.

Plan details. Small businesses can set up a SEP-IRA plan by completing IRS form 5305-SEP, or its equivalent, which may be obtained from any retirement plan provider. The IRS form requires a calendar-year plan while non-IRS forms permit businesses to opt for a fiscal-year plan instead.

A SEP-IRA is based only on employer contributions. For 2019, you can contribute either 25% of your compensation or $56,000, whichever is less. Vesting is immediate. Any employer with one or more employees may establish a SEP-IRA. Any employee who is at least 21, has been employed for three of the five preceding years and has earned a minimum of $450 in the current year is eligible to participate.

There are three formulas that may be used to allocate contributions to a SEP-IRA: a flat dollar amount, a specified percentage of eligible compensation or a Social Security integration formula. With the first formula each employee receives a contribution of the same dollar amount. Under the second formula, every employee receives a contribution of the same percentage of eligible compensation. If the employer decides on 10%, then all employees receive a contribution amounting to 10% of their eligible compensation, not to exceed the IRS limitation of $56,000.

Using the Social Security integration formula, the employer assigns to the plan a percentage of the accumulated total of all eligible employees' compensation, then, using a special formula, allocates a percentage to each eligible employee. The allocation must be made according to specific IRS-provided requirements or the SEP may be disqualified. Social Security integration provides the higher-paid employees with a larger percentage of the contribution.

Plan advantages. SEP-IRAs are easy to set up and maintain and no annual tax return is required. The employer contribution is optional, which eliminates the problem of required contributions in years when cash flow is a problem.

Plan disadvantages. Employee accounts are completely funded, or not, by the employer. Part-time employees and those who have earned only $450 in annual compensation and met other minimal requirements must be included.

SIMPLE Plans

Best suited for: Small businesses that have a consistent, reliable, positive earnings stream.

Plan details. There are two types of SIMPLE plans: a SIMPLE IRA and a SIMPLE 401(k). For both types, employees may contribute up to $6000 if under age 50 and $7000 if over age 50 for 2019. In SIMPLE IRA plans the employer must match up to 3% of employee pay or make a 2% non-elective contribution. In SIMPLE 401(k) plans the employer also must match the first 3% of deferred compensation.

Plan advantages. SIMPLE plans require little documentation and no annual tax filing. A plan is established by completing IRS form 5305-SIMPLE or an equivalent obtained from a retirement plan provider. Again, the non-IRS form permits a fiscal-year plan while the IRS form requires a calendar year. Employer and employee contributions are both vested immediately.

Plan disadvantages. Because of the annual mandatory employer contribution to employee accounts, employers who have concerns about irregular earnings streams must be wary of SIMPLE plans. It is possible to reduce the contribution percentage in designated years, but not to zero.

Traditional 401(k) Plans

Best suited for: Small business clients with irregular earnings streams that cannot support a plan with required contributions.

Plan details. Established about 20 years ago, the traditional 401(k) carries the most reporting requirements among the plans discussed here and is the costliest to administer. Employees make contributions to their 401(k) plans from pretax earnings. Employers can offer matching contributions but are not required to do so unless there is an imbalance in the plan that favors highly compensated employees. Employers may contribute a flat dollar amount, a share of the profits or a matching contribution.

Both SIMPLE and 401(k) plans are free from federal taxation but are subject to FICA and Medicare contributions. The traditional 401(k) plan is better for employees because it allows them to control the amount being set aside for retirement. Even if the employer chooses not to contribute in any particular year, employees still can. Employees also can contribute more to a 401(k) plan than they can to a SIMPLE plan. For 2019, 401(k) plan participants can contribute up to $19,000 plus a catchup contribution of $6000 for those over age 50.. Employee contributions are vested immediately, while employer contributions may vest over time, according to plan schedules. If required contributions are made because the plan is top-heavy, the plan must adhere to an accelerated vesting schedule outlined by the IRS, unless the plan's vesting schedule is more liberal.

401(k) costs. Administration of a 401(k) plan is complicated by the need for an annual tax return and annual compliance testing. Many small business employers turn the administrative duties over to the plan provider, but even if they do the IRS says it is the employer's responsibility to ensure that the plan is administered properly and fairly.

The plan providers we contacted said a 401(k) plan for a 10-employee company costs approximately $2,000 per year to administer, not including initial set-up costs or the cost of loan features. Some providers charge a per employee fee for administration in addition to monthly, quarterly or annual fees. Internet-based providers charge lower fees, and they predicted that fees will continue to fall as administration becomes more and more Internet-based.

The 401(k) plan was not a very popular choice for small business owners in the past because of its higher administration cost and the complexity of annual testing and filing of form 5500. Several plan providers

we contacted suggested that small businesses consider outsourcing retirement plans to their payroll plan administrator, who already has access to the necessary payroll data. This reduces the cost to the employer and allows the employer and employees to deal with only one entity for both services.

Another way to keep costs down is to offer only a few carefully selected mutual funds as investment vehicles instead of a large variety. A study by the Pension Research Council showed that retirement plan participation was higher in plans that offered a handful of options, as opposed to 10 or more choices.

401(k) compliance tests. 401(k) plans are subject to top-heavy tests in addition to others specified by the IRS to ensure they maintain a balanced participation of highly compensated and non-highly compensated employees. IRC section 415 limits the annual amount that can be added to a participant's account from all sources for 2019 to the lesser of their entire earnings or $56,000

Compliance tests such as the actual deferral percentage test (ADP test—IRC section 401(k)(3)) and the actual contribution percentage test (ACP tests—IRC section 401(m)(2)) prevent employers from designing 401(k) plans that benefit only highly paid personnel. The ADP test compares the percentage of salaries the different classes of employees have contributed to the plan. The ACP test compares the percentage of employer contributions in the 401(k) accounts for the different classes of employees. If contributions for highly compensated employees are more than the test limits, the employer may have to pay a 10% excise tax (see IRC section 4979).

IRS publications 4224 and 4050 provide information on correcting plans that are not in compliance so they maintain their tax-favored status.

Plan advantages. Employers are not required to contribute to the plan unless it is top-heavy. Employers wishing to contribute have the choice of making a matching contribution, profit sharing or a flat dollar contribution. Employees have the advantage of contributing pretax dollars to their accounts, which are vested immediately. The 401(k) plan allows for the highest permissible employee deferral of income and the highest catch-up contributions of all the plans.

Plan disadvantages. Administration costs are the highest of all the plans and require the most complex testing. In addition, the employer must file an annual tax return for the plan.

The Safe Harbor 401(k)

Best suited for: Employers with consistent earnings streams that can support a plan with annual required contributions. This is an attractive alternative for the business that wants the benefits of a 401(k) plan but does not want to or is not able to satisfy the required annual compliance testing. It's a very good option for family-based businesses that can meet the required criteria.

Plan details. The safe harbor plan is a means provided by the IRS to permit employers to achieve balanced participation in a 401(k) plan without the need for compliance tests. Rather, employers must make matching contributions to employee retirement accounts, or non-elective contributions (which are immediately vested) equal to 3% of each employee's annual compensation. The contributions are non-elective because they are made to all eligible employees, regardless of whether they participate in the company's 401(k) plan.

Matching contributions are made only to the accounts of active 401(k) plan participants. A dollar-for-dollar match must be made on salary deferrals up to 3% of compensation for each non-highly compensated employee, and a 50-cent-on-the-dollar match must be made on salary deferrals from 3% to 5% of compensation. The rate of any matching contributions being made to highly compensated employees cannot exceed that being made to non-highly compensated employees.

Employers choosing to make non-elective contributions can decide as late as 30 days before the end of each plan year whether to take the safe harbor route. Employers opting for the matching contributions must inform employees no later than 30 days before the beginning of the plan year, so they have time to determine their contribution rate.

Plan advantage. Offers all the benefits of traditional 401(k) plans but does not require mandated testing. Can be set up just 30 days in advance of the new plan year.

Plan disadvantage. Required annual contributions are the premise of this plan, so it is not a good option for CPAs to recommend to employers that do not have consistent earnings.■

Retirement Plan Options for Business Owners

	SEP IRA	Traditional/ Solo 401(k)	SIMPLE IRA	Traditional/ Roth IRA	Defined Benefit Plan
Generally Best For	**Sole Proprietor** Few to no employees. Wants flexibility and ease of administration.	**Solo 401(k): Sole Proprietor.** No employees (except spouse). Wants to maximize contributions. **Traditional 401(k):** Wants to provide more saving option for employees.	**Business with less than 100 employees.** Want ease of administration & employee participation.	**Any Individual.** Wants to increase tax deferred savings and 1) is already contributing to a qualified plan or 2) only wants to contribute minimal amount.	**Business owner who wants to maximize contributions above any other plan limits.** Values maximum savings ability over administrative costs.
Deadline to Establish	Tax filing plus extensions for year of contribution.	December 31 for year of contribution.	October 1 for year of contribution.	Tax filing (not including extensions) for year of contribution.	December 31 for year of contribution.
Deadline to Contribute	Tax filing plus extensions.	Tax filing plus extensions.	**ER Contribution:** Tax filing plus extension. **EE Contribution:** 30 days after month for which contribution is elected.	Tax filing (not including extensions) for year of contribution.	15 days after each quarter (contributions usually made quarterly).
Income to Qualify	**Employee:** W-2 wages. **Owner:** Sch C or SE income.	**Employee:** W-2 wages. **Owner:** Sch C or SE income.	**Employee:** W-2 wages. **Owner:** Sch C or SE income.	Earned income (wages; net earnings from self-employment; taxable alimony).	**Employee:** W-2 wages. **Owner:** Sch C or SE income.
Maximum Employee Contribution	N/A Employer only contributions.	100% "earned income" up to $18,500 + $6,000 catch up over 50.[1]	$12,500 + $3,000 catch up over 50.	$5,500 + $1,000 catch up over 50.	N/A Employer only contributions.
Maximum Employer Contribution	**Owner:** 20% Net adjusted profits (sole prop, partnership)/25% compensation (corporation) up to $55,000.[1] **Employee:** 25% compensation up to $55,000.	**Owner:** 20% Net adjusted profits (sole prop, partnership)/25% compensation (corporation) up to $55,000.[1] **Employee:** 25% compensation up to $55,000.	Dollar for dollar match up to 3% compensation or fixed 2% of compensation.	N/A	Annual benefit cannot exceed smaller of $220,000 or 100% Highest 3 years avg. compensation.[5]
Effect on Income Tax: Employee	Owner can deduct on 1040.	EE Contributions are pre-tax (Traditional). Reduce taxable income.	Owner can deduct on 1040. No deduction for employee, but contribution pre-tax.	**Traditional IRA:** Deductible Contributions. Taxable Withdrawals **Roth IRA:** NonDeductible Contributions. Tax Free Withdrawals.[3]	N/A Employer only contributions.
Effect on Income Tax: Employer	100% deductible contributions.[2]	100% deductible contributions.[2]	100% deductible contributions.[2]	N/A Funded by individual.	Deductible contributions–limit based on actuary computation.
Income Limitations	N/A	N/A	N/A	**Traditional IRA:** N/A.[4] **Roth IRA:** $120,000 to $135,000 (Single); $186,000 to $196,000 (MFJ).	N/A
Loan Provisions	None.	Allowed.	None.	None.	None.
Other Benefits	Only plan that can be established and funded after the tax year.	Employee Contributions Pre-Tax. Owner can make both employee contributions and employer "profit sharing" to maximize contribution. Solo 401(k) filing requirements are minimal compared to traditional 401(k) plans.	May incentivize employees to participate with matching employer contribution requirements.	Can set up spousal IRA for non working spouse.	Depending on age of employer/ employees, owner can potentially defer large sums annually to increase tax deduction for business and savings for employer/ employees. May combine with profit sharing plan to increase further.
References	IRS Pub 4333 (SEPs for small business)	IRS Pub 560. IRC Sec 401. www.irs.gov/retirement-plans/one-participant-401k-plans	IRS Pub 560. IRS Pub 4334 (SIMPLE Plans)	IRS Pub 590A and 590B	IRS Pub 560

END SECTION 13

Section 14 - How to Use the Income Tax Withholding and Advance Earned Income Credit (EIC) Tax Tables

Income Tax Withholding

There are several ways to figure income tax withholding. The following methods of withholding are based on the information that you get from your employees on Form W-4, Employee's Withholding Allowance Certificate. See section 5 for more information on Form W-4.

Wage Bracket Method

Under the wage bracket method, find the proper table (on pages 39-58) for your payroll period and the marital status as shown on his or her Form W-4. Then, based on the number of withholding allowances claimed Form W-4 and the amount of wages, find the amount of federal tax to withhold. If your employee is claiming more than 10 withholding allowances, see below. If you cannot use the wage bracket tables because wages exceed the amount shown in the last bracket of the table, use the percentage method of withholding described below. Be sure to reduce wages by the amount of total withholding allowances in Table 5 on this page before using the percentage method tables of IRS Publication 15.

Adjusting wage bracket withholding for employees claiming more than 10 withholding allowances. The wage bracket tables can be used if an employee claims up to 10 allowances. More than 10 allowances may be claimed because of the special withholding allowance, additional allowances for deductions and credits, and the system itself. Adapt the tables to more than 10 allowances as follows:

1. Multiply the number of withholding allowances over 10 by the allowance value for the payroll period. subtract the result from the employee's wages.

2. On this amount, find and withhold the tax in the column for 10 allowances.

This is a voluntary method. If you use the wage bracket tables, you may continue to withhold the amount in the "10" column when your employee has more than 10 allowances, using the method above. You can also use any other method described below.

Percentage Method

If you do not want to use the wage bracket tables to figure how much income tax to withhold, you can use a percentage computation based on Table 5 below and the appropriate rate table. This method works for any number of withholding allowances the employee claims and any amount of wages.

Use these steps to figure the income tax to withhold under the percentage method.

1. Multiply one withholding allowance for your payroll period (see Table 5 below) by the number of allowances that the employee claims.

2. Subtract that amount from the employee's wages.

3. Determine the amount to withhold from the appropriate table.

Table 5. Percentage Method—2019 Amount for One Withholding Allowance

Payroll Period	One Withholding Allowance
Weekly	$ 80.80
Biweekly	161.50
Semimonthly	175.00
Monthly	350.00
Quarterly	1,050.00
Semiannually	2,100.00
Annually	4,200.00
Daily or miscellaneous (each day of the payroll period)	16.20

Example. An unmarried employee is paid $800 weekly. This employee has in effect a Form W-4 claiming two withholding allowances. Using the percentage method, figure the income tax to withhold as follows:

1.	Total wage payment		$800.00
2.	One allowance	$80.80	
3.	Allowances claimed on Form W-4	2	
4.	Multiply line 2 by line 3		$161.60
5.	Amount subject to withholding (subtract line 4 from line 1)		$638.40
6.	Tax to be withheld on $638.40 from Table 1—single person, page 46		$64.11

To figure the income tax to withhold, you may reduce the last digit of the wages to zero or figure the wages to the nearest dollar.

Annual income tax withholding. Figure the income tax to withhold on annual wages under the *Percentage Method* for an annual payroll period. Then prorate the tax back to the payroll period.

Example.

A married person claims four withholding allowances. She is paid $1,000 a week. Multiply the weekly wages by 52 weeks to figure the annual wage of $52,000. Subtract $16,800 (the value of four withholding allowances for 2019) for a balance of $35,200. Using Table 7(b) on page 47, $2,420 is withheld. Divide the annual tax by 52. The weekly income tax to withhold is $46.54.

Alternative Methods of Income Tax Withholding

Rather than the wage bracket method or percentage method described in this section, you can use an alternative method to withhold income tax. Pub. 15-A describes these alternative methods and contains:

- Formula tables for percentage method withholding (for automated payroll systems);
- Wage bracket percentage method tables (for automated payroll systems); and
- Combined income, social security, and Medicare tax withholding tables.

Some of the alternative methods explained in Pub. 15-A are annualized wages, average estimated wages, cumulative wages, and part-year employment.

Advance Payment Methods for the Earned Income Credit (EIC)

To figure the advance EIC payment, you may use either the *Wage Bracket Method* or the *Percentage Method* as explained below. You may use other methods for figuring advance EIC payments if the amount of the payment is about the same as it would be using tables in this booklet. See the tolerances allowed in the chart in section 9 of Publication 15-A. See also section 10 in this booklet for an explanation of the advance payment of the EIC.

The number of withholding allowances that an employee claims on Form W-4 is not used in figuring the advance EIC payment. Nor does it matter that the employee has claimed exemption from income tax withholding on Form W-4.

Wage Bracket Method

If you use the wage bracket tables on pages 61 through 66, figure the advance EIC payment as follows.

Find the employee's gross wages before any deductions using the appropriate table. There are different tables for (a) single or head of household, (b) married without spouse filing certificate, and (c) married with both spouses filing certificates. Determine the amount of the advance EIC payment shown in the appropriate table for the amount of wages paid.

Percentage Method

If you do not want to use the wage bracket tables to figure how much to include in an employee's wages for the advance EIC payment, you can use the percentage method based on the appropriate rate table on pages 59 and 60.

Find the employee's gross wages before any deductions in the appropriate table on pages 59 and 60. There are different tables for (a) single or head of household, (b) married without spouse filing certificate, and (c) married with both spouses filing certificates. Find the advance EIC payment shown in the appropriate table for the amount of wages paid.

Whole-Dollar Withholding and Paying Advance EIC (Rounding)

The income tax withholding amounts in the Wage Bracket Tables (pages 39-58) have been rounded to whole-dollar amounts.

When employers use the Percentage Method (pages 37-38) or an alternative method of income tax withholding, the tax for the pay period may be rounded to the nearest dollar.

The Wage Bracket Tables for advance EIC payments (pages 61-66) have also been rounded to whole-dollar amounts. If you use the Tables for Percentage Method of Advance EIC Payments (pages 59-60), the payments may be rounded to the nearest dollar.

END SECTION 14

Section 15 – Tax Help and Ordering Tax Forms

The Help page below is the last page of IRS Publication 15. More details are available on the IRS website http://www.irs.gov/.

Quick and Easy Access to Tax Help and Forms

Personal Computer

You can access the IRS website 24 hours a day, 7 days a week, at **www.irs.gov** to:

- Download forms, instructions, and publications
- Order IRS products on-line.
- See answers to frequently asked tax questions
- Search publications on-line by topic or keyword
- Figure your withholding allowances using our W-4 calculator
- Send us comments or request help by e-mail
- Sign up to receive local and national tax news by e-mail

Fax

You can get over 100 of the most requested forms and instructions 24 hours a day, 7 days a week, by fax. Just call **703-368-9694** from the telephone connected to the tax machine.

For help with transmission problems, call **703-487-4608**. Long-distance charges may apply.

Mail

You can order forms, instructions, and publications by completing the order blank inside the back cover. You should receive your order within 10 days after we receive your request.

Phone

You can order forms and publications and receive automated information 24 hours a day, 7 days a week, by phone.

Forms and Publications

Call **1-800-829-4933** to order current year forms, instructions, and publications, and prior year forms and instructions. You should receive your order within 10 days.

TeleTax Topics

Call **1-800-829-4477** to listen to pre-recorded messages covering about 150 tax topics. See page 8 for a list of the topics.

Walk-In

You can pick up some of the most requested forms, instructions, and publications at many IRS offices, post offices, and libraries. Some city and county government offices, credit unions, grocery stores, office supply stores, and copy centers have an extensive collection of products available to photocopy or print from a CD-ROM.

CD-ROM

Order **Pub. 1796**, Federal Tax Products on CD-ROM, and get:

- Current year forms, instructions, and publications
- Prior year forms, instructions, and publications
- Frequently requested tax forms that may be filled in electronically, printed out for submission, and saved for recordkeeping
- The Internal Revenue Bulletin

Buy the CD-ROM on the Internet at **www.irs.gov/cdorders** from the National Technical Information Service (NTIS) for $22 (no handling fee) or call **1-877-CDFORMS** (1-877-233-6767) toll free to buy the CD-ROM for $22 (plus a $5 handling fee).

END SECTION 15

Section 16 – Credits, References and Links

This section gives credit to sources for this course as well as providing references, resources and links for further study and investigation on this topic.

Specific thanks to the following which served as sources for some of the information in this course.

1. http://www.irs.gov/ - The official Internal Revenue Service IRS website, specifically Publication 15, Circular E, Employer's Tax Guide, 2007. ***NOTE: This hyperlink will link to the latest forms available from the IRS. Please make sure to double-check the version you are using before filing.***

2. Tax and Accounting Site Directory, (http://www.taxsites.com/state.html) sponsored by Accountants World

3. Learnthat.com Form of Business Entity definitions.

4. Department of homeland Security, US Citizenship and Immigration Services – I-9 Form for Employee Eligibility

5. From Darrell Zahorsky, Your Guide to Small Business Information for About.com

6. Social Security Agency Website SSA website for W2 and W3 Form Instructions and Information.

7. IRAs and 401Ks: How to Pick the Best Plan, by Cynthia Scarinci

8. Fundamentals of Starting and Operating a Business – Kevin A. Mussmacher, P.E. PDHonline.org Course number P137.

Other References

1. Small Business and Self-Employed One-Stop Resource **(**http://www.irs.gov/businesses/small/index.html**)**

2. Small Business Taxes & Management

Just search the web under "small business tax help" for numerous other resources.

END SECTION 16

END OF COURSE CONTENT