Payroll taxes and related penalties.

# W-4

The W-4, for all its simplicity, is very misunderstood by employees. Many of them play loose & fast with the number of dependents, etc. The W-4 is designed to help the employee pay their annual taxes in small chunks and prevent them from having a large tax bill at the end of the year.

Claiming more dependents on W-4 is the surest way to cause yourself problems. By claiming more, the employer will withhold less taxes from your weekly paycheck. That gets you a bigger paycheck but by the end of the year you have not had enough withheld to cover your tax bill.

*The following is for illustration only and does not use real numbers or equations.*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| *Annual Salary = $60,000* | **Weekly Gross** | **Married** | **Depdts.** | **Anticipated Tax** | **Weekly Tax** | **Net paycheck** |
| Claim Married, 2 Dep. | $1,153.85 | Y | 2 | $ 2,739.00 | $ 52.67 | $1,101.18 |
| Single/0 Dep. | $1,153.85 | N | 0 | $ 8,259.00 | $ 158.83 | $995.02 |

At the end of the year, the employee will file tax return with the real status and owe the IRS $5,520.

Now reverse it & the employee wants to get a refund at the end of the year.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| *Annual Salary = $60,000* | **Weekly Gross** | **Married** | **Depdts.** | **Anticipated Tax** | **Weekly Tax** | **Net paycheck** |
| Claim Single/0 Dep. | $1,153.85  | N | 0 | $8,259.00  | $158.83  | $995.02  |
| Married, 2 Dep. | $1,153.85  | Y | 2 | $2,739.00  | $52.67  | $1,101.18  |

This time, at the end of the year, the employee files the return with real status and gets a refund of $5,520. The problem then is that you’re essentially giving the government an interest free loan of your money and you can’t access it until the end of the year.

# Payroll by period (Federal Tax Deposits)

Federal Tax Deposits (FTD) is the single biggest reason people get in trouble with the IRS. As an employer, you have responsibility to the government and your employees. Your employees are required to pay their taxes, most of which comes from their earnings. That is where you withhold the amount and periodically pay it over to the government.

That period for making deposits depends on the total amount of tax liability in a “lookback period”. You can get more details by searching “IRS Notice 931”. The most common are:

Monthly: Withheld taxes for a month are due on the 15th of the following month.

SemiWeekly: If payday is on Wed, Thu, Fri, deposit by the following Wednesday. All other days, deposit by the following Friday.

Using the example above of the employee filing W-4 properly,

# Quarterly payroll filing (941’s)

# TFRP (Trust Fund Recovery Penalty)

# W-2’s, W-3 & 1099’s

# CAWR (Combined Annual Wage Reporting)