MASTERING PAYROLL LESSON 5
HOMEWORK SOLUTIONS

Section 4–EMPLOYMENT RECORDS AND PAYROLL RECORDKEEPING

1. What four documents must employers collect at time of hiring or obtain from the employee after hiring?

   1. ***SS card (it is suggested only to secure a photocopy of this document)***
   2. ***Federal W-4 (and state/local equivalent if applicable)***
   3. ***Age certificates (for minors)***
   4. ***I-9 (and documents to substantiate identity and authorization to work in the U.S.)***

2. What is the purpose of Form I-9, and who completes it?

   Form I-9 is required under the Immigration Reform and Control Act of 1986. All employees must complete and sign Section 1 of the I-9. Employers then complete their portion substantiating the employee's sworn statement. Employers must also request documents proving both the employee's identity and authorization to work in the U.S.

3. Which documents provide proof of identity, but not authorization to work in the U.S.?

   Driver's license (U.S. or Canadian), federal state, or local ID with photo, school ID card with photo, voter registration card, U.S. military card, draft record, military dependent's ID card, U.S. Coast Guard Merchant Mariner Card or a Native American tribal document. If under 18 and lacking these documents, a school record or report card, clinic, doctor or hospital record, or daycare or nursery school record substantiates identity (but not authorization to work in the U.S.). See the I-9 (rev. October 21, 2019) for a full list of documents.

4. On August 3, 2022, Becky completes a W-4. On February 12, 2023, she submits a new W-4 claiming 3 additional exemptions. Until what date must Becky's employer retain each of Becky's W-4s?

   Becky's August 3, 2022, W-4 must be retained until April 15, 2027, (4 years after April 15, 2023). Her W-4 dated February 12, 2023, is retained until April 15, 2028 or April 15 following the year of her termination; whichever is later (unless she submits another W-4 in the interim).

5. Until what date must an employer retain the following documents?

   a. W-2s issued to employees for 2023

      W-2s should be retained for 4 years starting on April 15 of the year subsequent to the tax year to which the document applies. Thus, these W-2s should be retained until April 15, 2028.

   b. A 2022 Form 940 filed on February 1, 2023

      Form 940 should be retained for 4 years from the filing due date (January 31, 2027).

   c. A former employee's 2021 W-2 that had been returned as undeliverable

      The IRS requires that a returned W-2 be retained for 4 years from April 15 following the tax year to which the document pertains. Thus, the employer should retain this returned W-2 until April 15, 2026.

Section 5–EMPLOYEE DATA: FORM W-4 AND STATE WITHHOLDING ALLOWANCE CERTIFICATES

1. How long does a new employee have to submit a completed W-4? How must the employer withhold FIT until the W-4 is received from a new employee?

   New employees should complete Form W-4 on their first day of work. Until a W-4 is submitted, the employer is required to withhold federal income tax as though the employee is single or married filing separately with no other adjustments.

2. On March 2, 2023, Mischa submits a new W-4. If payday is Friday, what is the date of the first paycheck that must reflect Mischa's new W-4?

   Mischa's employer must make sure that her new W-4 is implemented on her paycheck of Friday, March 31, 2023. The 30-day period within which Mischa's new W-4 must be implemented ends on March 31, 2023. The first wage payment on or after March 31, 2023 is on Friday, March 31, 2023.

3. On October 2, 2023, Janet starts a part-time job. She did not owe federal income tax in 2020 and does not expect to earn enough to pay federal income tax for 2023, so she claims exempt from federal income tax withholding on her 2023 Form W-4. Does Janet need to submit a W-4 in 2024? If so, by when—and how does her employer withhold if she does not do this?

   Janet is required to submit a 2023 Form W-4 by February 15, 2024. If she does not submit the W-4 by February 15, 2024, then starting on February 16, 2024, her employer must withhold at single or married filing separately with no adjustments.

***Section 6*–HOW EMPLOYERS WITHHOLD AND DEPOSIT FEDERAL TAXES**

<u>Recommended</u>: Do not penalize students who omit the one-business-day rule.

1. Don is paid $10,000 a month—$5,000 on the 15th, and $5,000 on the last day of the month. As of October 31, 2023, Don's year-to-date FICA wages are $100,000. How much FICA must Don's employer withhold from his pay dated December 15, 2023?

   Don will not reach the 2023 Soc. Sec. wage base of $160,200. And his wages are under $200,000 so the Additional Medicare Tax of 0.9% does not apply.

   $5,000.00 x 6.2% = $310.00 (Social Security tax)

   $5,000.00 x 1.45% = $72.50 (Medicare tax)

   Total FICA $310.00 + $72.50 = $382.50

2. As of Friday, July 14, 2023, Ray's year-to-date wages, including bonuses, are $160,000. How much FICA must Ray's employer withhold from his pay for the next payday on Friday, July 21, 2023 assuming his salary is $2,000?

   The employee will reach the SS wage limit in the July 21 payroll period therefore, only a portion of his pay is subject to SS tax. His wages will not reach $200,000; therefore, the Additional Medicare tax of 0.9% will not apply.

   2023 Social Security maximum of $160,200 less year-to-date of $160,000 = $200

   $200.00 x 6.2% = $12.40 (Social Security tax)

   $2,000.00 x 1.45% = $29.00 (Medicare tax)

   Total FICA tax = $41.40

3. Use the 2022 Payroll Tax Withholding Tables from IRS Pub. 15-T, (see Mastering Payroll, Section 6, pages 89-90), to compute FITW for the following:

   a. On Sandy's 2022 Form W-4, she claims married filing jointly with no other adjustments and is paid $645 a week.
   $12. On page 89 of Mastering Payroll, this amount corresponds to the row $645-$655 and the column for married filing separately, standard withholding.

   b. On Zhang's 2019 Form W-4, he claimed married and 1 allowance and was paid $745 per week.
   $39. On page 90 of Mastering Payroll, this amount corresponds to the row $745-$760 and the column for 1 withholding allowance.

4. Which of the following employees is subject to FITW? to FICA? Answer “yes” or “no” in the spaces provided.

		FITW	FICA
a.	Dennis, a senior in high school, is 17 years old and works part-time after school and on weekends for his father, a CPA whose practice is a sole proprietorship.	*Yes*	*No*
b.	Evita, 15 years old, works part-time at her father’s bakery, which her father runs as a partnership with his fraternity brother.	*Yes*	*Yes*
c.	Patty, age 19, a full-time college student, lives at home with her parents and her disabled 10-year-old brother. Patty’s parents pay her to take care of her brother.	*Yes*	*No*
d.	Debbie and Dave work full-time and pay Dave’s mother, Tina, to come to their home and watch the grandchildren after school.	*Yes*	*No*

Dennis is exempt from FICA because children under age 18 employed by sole proprietorships owned by their parents are exempt from FICA.

Evita is subject to FICA because the exemption applies only to children who work for a partnership where the employee is related to both partners.

Patty is exempt from FICA because she is under age 21 and performs domestic services in her parents’ home.

Tina is exempt from FICA because she performs domestic services in her child’s home.

5. What is the Form 941 lookback period? To which employer tax liabilities does it apply? How is it used to determine an employer’s deposit frequency in 2023?

The Form 941 lookback period runs for the 12 months ending on June 30 of the prior year. Thus, for 2023, the lookback period is July 1, 2021 –June 30, 2022.

The lookback period is used for Form 941 tax liabilities: FICA and FITW.

Employers with more than $50,000 in federal 941 tax liabilities during the lookback period are semiweekly depositors for 2023—but if $50,000 or less, they are monthly depositors (unless they trigger the one-business –day deposit rule).

6. For each of the following scenarios, determine whether the employer is a monthly, semiweekly or annual depositor for 2021. Check the appropriate box.

		Monthly	Semi-weekly	With Form 941
a.	AAA begins operation on March 1, 2023, and anticipates a 2023 Form 941 tax liability of $5,000.	*X*		
b.	BBB was started in 1992. For the lookback period ending June 30, 2022, BBB's cumulative tax liabilities were $45,000.	*X*		
c.	CCC started up in 2005. For the lookback period ending June 30, 2022, CCC's cumulative tax liabilities were $75,000.		*X*	
d.	DDD began doing business in 2006. For the lookback period ending June 30, 2022, DDD's cumulative tax liabilities were $45,000. DDD's 941 tax liability for one payroll period in March 2023 was $103,550.		*X*	
e.	EEE began hiring in 2000. For the look-back period ending June 30, 2022, EEE's cumulative tax liabilities were $29,000. EEE's tax liability for one payroll period in January 2023 is $100,050.		*X*	
f.	FFF starts up in October 2023 and expects a 941 tax liability of $2,000 through the end of 2023.			*X*

AAA (a new employer) has $0 accumulated 941 taxes in its lookback period, and therefore is automatically a monthly depositor in 2023, assuming that it does not trigger the one-business-day deposit rule.

Because BBB's cumulative 941 tax liability during the lookback period did not exceed $50,000 and it has not triggered the one-business-day deposit rule, BBB is also a monthly depositor.

Because CCC's 941 tax liability during the lookback period exceeded $50,000, it is a semiweekly depositor in 2023.

Although the 941 tax liabilities for DDD and EEE did not exceed $50,000 for the lookback period, both triggered the one-business -day deposit rule making them semiweekly depositors for the remainder of 2023 and for 2024.

FFF can pay its 941 taxes with its 941 because its liability does not exceed $2,500 for the fourth quarter of 2023. (Deposits of less than $2,500 are paid with the quarterly return—deposits of more than $2,500 must be paid monthly).

7. Determine when each of the following must deposit its Form 941 tax liabilities.

   a. Quikstep, a monthly depositor, pays employees on Friday. The total 941 deposit obligation for wages paid on April 14, 2023, is $2,400.

      As a monthly depositor that has not triggered the one-business-day rule, Quikstep must deposit its April 941 tax liability by May 15, 2023.

   b. Slowque, a monthly depositor, pays employees on Friday. Its total 941 deposit obligation for wages paid on September 3, 2023, is $2,000.

      As a monthly depositor that has not triggered the one-business-day rule, Slowque deposits its 941 tax liabilities incurred in September by October 16, 2023

   c. BigTime, a semiweekly depositor, pays employees on Friday. BigTime's 941 deposit obligation for wages paid on Friday, June 30, 2023, is $12,400.

      As a semiweekly depositor that has not triggered the one-business-day rule, BigTime must deposit its 941 tax liability by the next Wednesday (July 5, 2023). If the due date falls on a federal legal holiday, BigTime has until the next business day to make the deposit.

      TIP: The deposit due date can be found in the 2023 IRS Pub. 509.

8. Determine when each company must pay its 941 deposit shortfall to avoid penalties.

   a. Dallas DCS, a monthly depositor, discovers a 1.0% shortfall in its deposit of 941 liabilities for April 2023.

      To avoid penalties, Dallas DCS must deposit the shortfall by July 31, 2023 (the 941 due date for the second quarter).

   b. Chic Shop, a monthly depositor, discovers a 1.95% shortfall in its deposit of 941 liabilities for October 2023.

      To avoid penalties, Chic Shop must deposit the shortfall by January 31, 2024, the 941 due date for the fourth quarter).

Section 7–FEDERAL EMPLOYMENT REPORTING FORMS AND DUE DATES

1. Cajun Corporation has 10 employees. Nine are paid $35,000–$50,000 a year and one is paid $5,000. Compute Cajun's FUTA liability for 2023 if:

   a. Cajun fails to pay its SUI for the year.

   The first $7,000 of each employee's taxable wages is subject to the full 6% FUTA.

   ($7,000 × 6.0% × 9 employees) + ($5,000 × 6.0%) = $4,080.

   b. Cajun pays SUI timely and in full throughout the year, and it is subject to a 1.4% FUTA credit reduction for the year.

   The first $7,000 of each employee's taxable wages is taxed at a net FUTA rate of 2% (.6% + 1.4%)

   ($7,000 × 2% × 9 employees) + ($5,000 × 2%) = $1,360.

2. Ron Myers's sole proprietorship pays each of its six full-time employees more than $20,000 a year. Compute Ron's FUTA liability for 2023, if:

   a. The proprietorship is subject to a 1.4% FUTA credit reduction.

   The adjusted FUTA rate is 2% (.6% + 1.4% FUTA credit reduction).

   $7,000 x 2% x 6 employees = $840.

   b. The proprietorship pays SUI timely and in full throughout the year and is not subject to a FUTA credit reduction.

   The first $7,000 of each employee's taxable wages is subject to a net FUTA rate of .6%.
   $7,000 ×.6% × 6 employees = $252.

3. What is the due date for a company's FUTA tax if its FUTA tax liability is:

   a. $755 as of March 31?

   The company must deposit its FUTA tax liability by April 30 (if this is on a weekend or federal legal holiday, then the next business day).

   b. $476 as of June 30?

   The company can roll over its FUTA tax liability to the third quarter and subsequent quarters until its liability exceeds $500 or until January 31 of the following year, whichever comes first.

4. What types of taxes are reported on Form 945? When is the 2023 Form 945 due?

    Form 945 is used to report backup tax [1] and federal income tax withheld [2]; amounts paid as retirement pay for service in the Armed Forces [3]; certain annuities [4], and pensions, annuities, IRAs, and certain other deferred income [5].

    [1.] IRC §3406 [2.] IRC §3402(q) [3.] IRC §3402 [4.]IRC §3402(o)(1)(B) [5.] IRC §3405

    The due date for the 2023 Form 945 is January 31, 2024. But an employer that made all deposits on time and in full has until February 12, 2024 to file it.

5. For tax year 2023, provide the date by which the W-2 is due to each of the following:

    a. A current employee
       January 31, 2024.

    b. The Social Security Administration
       The due date is January 31, 2024 whether filed on paper or electronically.

6. When is the tax year 2023 Form W-3 due for each of the following:

    a. Paper W-2s filed with the SSA?
       For paper W-2s, January 31, 2024.

    b. W-2s filed electronically?
       No W-3 is required when W-2s are filed electronically.