



BLACK WALL STREET

## Payroll Taxes

### You Have to Pay Them if You Have Employees!

Below are the payroll taxes you are subject to as an employer. Your portion of these taxes will total about 7.5% of your employees' pay. Look back to Lesson 1 (Legal) to determine whether your team members are employees or independent contractors.

If your team members are independent contractors, they bear the total amount of these taxes themselves. That's why you'd often prefer to designate team members as independent contractors instead of employees. But, if you make this designation incorrectly and your team members do not pay their own taxes and are reclassified, you are on the hook for the unpaid taxes. Be aware.

If you do have employees, **I recommend you engage a payroll service to calculate and handle withholding of payroll taxes rather than trying to do it yourself or having your bookkeeper handle it.** The small amount of money you'll pay for a payroll service is well, well worth it.

#### Federal Income Tax (FIT)

To be an employer, you must have individuals who perform services as employees (as opposed to independent contractors). If an individual is subject to the will and control of the person for whom the services are performed, both as to what is to be done and the manner in which it is to be accomplished, that individual is an employee. It makes no difference whether the individual is given considerable discretion and freedom of action, so long as the one for whom the services are performed has the **legal right to control both the method and the result of those services.**

The following items have no effect on the determination of employer status.

- number of employees
- the irregularity of their work periods
- the frequency of wage payments
- wage payments may be small.



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Individuals, corporations, partnerships, joint stock companies, associations, syndicates, groups, pools, joint ventures, and other forms of unincorporated organizations may all be employers.

If the entity for which services are performed does not have legal control of the payment of wages, the employer is the entity having such control. If, however, the entity making the payment is acting solely as an agent for another entity, the employer is the controlling entity and not the agent.

As an employer you are required to withhold a specified amount or percentage from each payment of wages to each of your employees to collect currently the approximate federal income tax liability owed on those wages. The number of withholding exemptions claimed by the employee is taken into account in calculating the amount withheld. You must also remit those withheld amounts (using Form 8109) in a timely manner to the federal government.

Federal income tax reporting obligations include, but are not limited to, the filing of [Form 941](#) and [Forms W-2 and W-3](#).

### **Federal Insurance Contributions Act (FICA)**

An employer is one who pays wages to one or more employees in covered employment. As with federal income tax, the legal right to control both the method and the result of services performed usually determines employer status. Certain service in the employ of a state or any of its political subdivisions, or any instrumentality thereof, is exempt from FICA:

- (1) service begun before April 1, 1986,
- (2) service by an individual who is employed to relieve him from unemployment,
- (3) service in a hospital, home, or other institution by a patient or inmate thereof,
- (4) service by an employee serving on a temporary basis in case of fire, storm, snow, earthquake, flood, or other similar emergency, and
- (5) service by student nurses and other student employees of hospitals.



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As an employer you are required to withhold a specified percentage from each payment of wages to each of your employees to collect currently the old age, survivors, and disability insurance and Medicare tax liabilities owed on those wages. You must also pay the employer portion (in the same amount as those withheld from the employee's wages) of these taxes. No withholding exemptions are taken into account in determining the amounts withheld or paid. The combined amounts must then be remitted (using Form 8109) in a timely manner to the federal government.

FICA reporting obligations include, but are not limited to, the filing of [Form 941](#) and [Forms W-2 and W-3](#).

### **Federal Unemployment Tax Act (FUTA)**

You must meet one of two conditions to be considered an employer for purposes of FUTA:

- (1) you have had at least one employee for some portion of the day on each of twenty days (each in a different calendar week) during the preceding or current calendar year, or
- (2) you must have paid wages (whether or not taxable) of \$1,500 or more during any calendar quarter in the current or preceding calendar year.

Passage of only one test is sufficient to classify you as an employer. The legal nature of the business organization is generally immaterial in the determination of employer status.

As an employer you are required to pay a specified percentage on each payment of wages (up to a specified maximum wage base) to each of your employees. No withholding exemptions are taken into account in determining the amounts withheld or paid. You must also remit those payments (using Form 8109) quarterly to the federal government.

FUTA reporting obligations include, but are not limited to, the filing of [Form 94](#)