

## CHAPTER NINE

### PAYROLL ACCOUNTING: EMPLOYER TAXES AND REPORTS

## EMPLOYER PAYROLL TAXES

### Employer pays payroll taxes

- FICA (Social Security, Medicare)
- FUTA (Federal Unemployment Tax Act)
- SUTA (State unemployment tax)

### Taxes add to cost of employee

## EMPLOYER'S FICA TAXES

### Employee and employer pay FICA taxes

- Social Security
- Medicare

Each pays same amount

## EMPLOYER'S FICA TAXES

### Social Security

- 6.2% tax rate
- On first \$76,200 in earnings

Earnings subject to  
Social Security tax is  
obtained from the  
Payroll Register.

## PAYROLL REGISTER

NAME	# ALLOW.	MARITAL STATUS	EARNINGS		
			REGULAR	OVER -TIME	TOTAL
Cadrain, Sarah	4	M	1,200.00	60.00	1,260.00
Guder, James	1	S	760.00	140.00	900.00
Istone, Ken		M	500.00		545.00
Kuzmik, Helen				294.00	774.00
Lee, Hoseoup					440.00
Swaney, Linda				198.00	726.00
Tucci, Paul					490.00
Wiles, Harry	1	S	300.00		300.00
			4,743.00	692.00	5,435.00

Sarah earned  
\$1,260 this period....

## PAYROLL REGISTER

EARNINGS		TAXABLE EARNINGS	
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,260.00	76,800.00		660.00
900.00	48,400.00		900.00
545.00	27,025.00		545.00
774.00			774.00
440.00			440.00
726.00			726.00
490.00			490.00
300.00	6,300.00	300.00	300.00
5,435.00	259,415.00	300.00	4,835.00

But only \$660 of her earnings  
are below the maximum  
and therefore subject  
to Social Security tax.

## PAYROLL REGISTER

EARNINGS		TAXABLE EARNINGS	
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,260.00	76,800.00		660.00
900.00	43,400.00		900.00
545.00	27,025.00		545.00
774.00	3		774.00
440.00	2		440.00
726.00	2		726.00
490.00	25,050.00		490.00
300.00	6,300.00	300.00	300.00
5,435.00	259,415.00	300.00	<b>4,835.00</b>

This period's total earnings subject to Social Security tax

## EMPLOYER'S FICA TAXES

Social Security Taxable Earnings x Tax Rate = Tax

$$\$4,835 \times 6.2\% = \$299.77$$

\$299.77 Withheld from employee  
+ \$299.77 Paid by employer

**\$599.54** Total Social Security tax to be paid to the IRS

## EMPLOYER'S FICA TAXES

Medicare = 1.45% of ALL earnings

Total Earnings x Tax Rate = Tax

$$\$5,435 \times 1.45\% = \$78.81$$

\$78.81 Withheld from employee

\$78.81 Paid by employer

**\$157.62** Total Medicare tax to be paid to the IRS

## SELF-EMPLOYMENT TAX



## SELF-EMPLOYMENT TAX

### Paid by owner of business

- Owner is both employee and employer

### Computed on net income of business

### Pay both portions of FICA Tax

- Social security 12.4% (6.2% + 6.2%)
- Medicare 2.9% (1.45% + 1.45%)
- Total FICA tax = 15.3% of net income

## EMPLOYER'S FUTA TAX

### Federal Unemployment Tax Act

- Tax on employers
- Fund federal, state unemployment compensation programs

## EMPLOYER'S FUTA TAX

- Maximum federal tax rate **6.2%**
- State tax credit of **5.4%**
- Reduces federal rate to **0.8%**
- On first \$7,000 in earnings
- State rate reduced by low claims

Let's look back at the Payroll Register and determine the FUTA tax owed.

## PAYROLL REGISTER

EARNINGS		TAXABLE EARNINGS	
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,260.00	76,800.00		660.00
900.00			900.00
545.00			545.00
774.00			774.00
440.00			440.00
726.00	27,500.00		726.00
490.00	25,050.00		490.00
<b>300.00</b>	<b>6,300.00</b>	<b>300.00</b>	<b>300.00</b>
5,435.00	259,415.00	300.00	4,835.00

Only 1 employee's earnings is below the \$7,000 and therefore subject to FUTA tax

## PAYROLL REGISTER

EARNINGS		TAXABLE EARNINGS	
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,260.00	76,800.00		660.00
			900.00
			545.00
			774.00
			440.00
			726.00
490.00	25,050.00		490.00
<b>300.00</b>	<b>6,300.00</b>	<b>300.00</b>	<b>300.00</b>
5,435.00	259,415.00	300.00	4,835.00

A credit of 5.4% is granted because this company participates in a state unemployment program.  
 $6.2\% - 5.4\% = 0.8\%$  FUTA rate

## PAYROLL REGISTER

EARNINGS		TAXABLE EARNINGS	
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,260.00	76,800.00		660.00
900.00	43,400.00		900.00
545.00			545.00
774.00			774.00
440.00			440.00
726.00			726.00
490.00	25,050.00		490.00
<b>300.00</b>	<b>6,300.00</b>	<b>300.00</b>	<b>300.00</b>
5,435.00	259,415.00	300.00	4,835.00

FUTA tax is **\$2.40**.  
 $0.8\% \times \$300$

## EMPLOYER'S SUTA TAX

- Levied on employers
- Commonly 5.4% of first \$7,000 per employee
- Lower rate to employers with few former employees receiving unemployment compensation

## PAYROLL REGISTER

EARNINGS		TAXABLE EARNINGS	
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,260.00	76,800.00		660.00
900.00	43,400.00		900.00
545.00	27,025.00		545.00
774.00			774.00
440.00			440.00
726.00			726.00
490.00			490.00
<b>300.00</b>	<b>6,300.00</b>	<b>300.00</b>	<b>300.00</b>
5,435.00	259,415.00	300.00	4,835.00

SUTA tax is **\$16.20**.  
 $\$300 \times 5.4\%$

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1					
2					
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A journal entry is needed to record the expense and liabilities of these payroll taxes.

PAYROLL REGISTER			
EARNINGS		TAXABLE EARNINGS	
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,260.00			660.00
900.00			900.00
545.00			545.00
774.00	31,000.00		774.00
440.00	22,340.00		440.00
726.00	27,500.00		726.00
490.00	25,050.00		490.00
300.00	6,300.00	300.00	300.00
<b>5,435.00</b>	<b>259,415.00</b>	<b>300.00</b>	<b>4,835.00</b>

Step #1 Obtain taxable earnings amounts from Payroll Register

PAYROLL REGISTER			
EARNINGS		TAXABLE EARNINGS	
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,260.00			660.00
900.00			900.00
545.00			545.00
774.00	31,000.00		774.00
440.00	22,340.00		440.00
726.00	27,500.00		726.00
490.00	25,050.00		490.00
300.00	6,300.00	300.00	300.00
<b>5,435.00</b>	<b>259,415.00</b>	<b>300.00</b>	<b>4,835.00</b>

Step #2 Compute Social Security tax  $\$4,835 \times 6.2\% = \$299.77$

PAYROLL REGISTER			
EARNINGS		TAXABLE EARNINGS	
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,260.00			660.00
900.00			900.00
545.00			545.00
774.00	31,000.00		774.00
440.00	22,340.00		440.00
726.00	27,500.00		726.00
490.00	25,050.00		490.00
300.00	6,300.00	300.00	300.00
<b>5,435.00</b>	<b>259,415.00</b>	<b>300.00</b>	<b>4,835.00</b>

Step #3 Compute Medicare tax  $\$5,435 \times 1.45\% = \$78.81$

PAYROLL REGISTER			
EARNINGS		TAXABLE EARNINGS	
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,260.00			660.00
900.00			900.00
545.00			545.00
774.00	31,000.00		774.00
440.00	22,340.00		440.00
726.00	27,500.00		726.00
490.00	25,050.00		490.00
300.00	6,300.00	300.00	300.00
<b>5,435.00</b>	<b>259,415.00</b>	<b>300.00</b>	<b>4,835.00</b>

Step #4 Compute FUTA tax  $\$300 \times 0.8\% = \$2.40$

PAYROLL REGISTER			
EARNINGS		TAXABLE EARNINGS	
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,260.00			660.00
900.00			900.00
545.00			545.00
774.00	31,000.00		774.00
440.00	22,340.00		440.00
726.00	27,500.00		726.00
490.00	25,050.00		490.00
300.00	6,300.00	300.00	300.00
<b>5,435.00</b>	<b>259,415.00</b>	<b>300.00</b>	<b>4,835.00</b>

Step #5 Compute SUTA tax  $\$300 \times 5.4\% = \$16.20$

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1					
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**Step #6 Prepare journal entry using the amounts computed in steps 2 - 5**


GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	Dec. 19	Payroll Taxes Expense		397.18	
2		Social Security Tax Payable			299.77
3		Medicare Tax Payable			78.81
4		FUTA Tax Payable			2.40
5		SUTA Tax Payable			16.20
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**Payroll Taxes Expense is debited for the total of all employer taxes. (\$299.77 + 78.81 + 2.40 + 16.20)**

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	Dec. 19	Payroll Taxes Expense		397.18	
2		Social Security Tax Payable			299.77
3		Medicare Tax Payable			78.81
4		FUTA Tax Payable			2.40
5		SUTA Tax Payable			16.20
6		Employer payroll taxes for			
7		Week ended Dec. 19			
8					
9					
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### TOTAL PAYROLL COST OF AN EMPLOYEE


Gross Wages \$26,000



Let's look at the total costs of an employee who earns \$26,000/year.

### TOTAL PAYROLL COST OF AN EMPLOYEE


Gross Wages \$26,000  
Social Security 1,612



$\$26,000 \times 6.2\%$

### TOTAL PAYROLL COST OF AN EMPLOYEE

Gross Wages \$26,000  
Social Security 1,612  
Medicare 377



$\$26,000 \times 1.45\%$

## TOTAL PAYROLL COST OF AN EMPLOYEE

Gross Wages	\$26,000
Social Security	1,612
Medicare	377
SUTA	378

\$7,000 x 5.4%



## TOTAL PAYROLL COST OF AN EMPLOYEE

Gross Wages	\$26,000
Social Security	1,612
Medicare	377
SUTA	378
FUTA	56

\$7,000 x 0.8%



## TOTAL PAYROLL COST OF AN EMPLOYEE

Gross Wages	\$26,000
Social Security	1,612
Medicare	377
SUTA	378
FUTA	56
<b>Total</b>	<b>\$28,423</b>

Total Cost!!



## FORM 941

See page 303

### Reports these taxes

- Employee federal income tax withheld
- Employee Social Security & Medicare taxes withheld
- Employer Social Security & Medicare taxes

## GENERAL JOURNAL

	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1					
2					
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Each deposit requires a journal entry.

## GENERAL JOURNAL

	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	Feb. 15	Employee Income Tax Payable		2,526.80	
2		Social Security Tax Payable		2,692.48	
3		Medicare Tax Payable		631.60	
4					
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941 payment includes both the employer and employee portions and leaves the liability accounts with zero balances.

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	Feb. 15	Employee Income Tax Payable		2,526.80	
2		Social Security Tax Payable		2,692.48	
3		Medicare Tax Payable		631.60	
4		Cash			5,850.88
5		Deposit of employee federal			
6		income tax and Social			
7		Security and Medicare taxes			
8		With form 941			
9					
10					
11					

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	Apr. 30	FUTA Tax Payable		408.00	
2		Cash			408.00
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FUTA is paid on the first \$7,000 of earnings per employee. The first quarter's deposit is usually the largest.

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	Apr. 30	FUTA Tax Payable		408.00	
2		Cash			408.00
3		Paid federal unemployment tax on form 940			
4					
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GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	Apr. 30	SUTA Tax Payable		2,754.00	
2		Cash			2,754.00
3		Paid state unemployment tax			
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PAYROLL LIABILITIES	
EMPLOYEE INCOME TAX PAYABLE	
DEBIT	CREDIT
	Credited when federal income tax is withheld from employees.

PAYROLL LIABILITIES	
EMPLOYEE INCOME TAX PAYABLE	
DEBIT	CREDIT
Debited when withheld taxes are paid to the IRS on 941.	

## PAYROLL LIABILITIES

### SOCIAL SECURITY TAX PAYABLE

DEBIT

CREDIT

Both the employer and employee pay Social Security taxes.

## PAYROLL LIABILITIES

### SOCIAL SECURITY TAX PAYABLE

DEBIT

CREDIT

Credited when taxes are withheld.

## PAYROLL LIABILITIES

### SOCIAL SECURITY TAX PAYABLE

DEBIT

CREDIT

Credited to recognize employer's matching tax.

## PAYROLL LIABILITIES

### SOCIAL SECURITY TAX PAYABLE

DEBIT

CREDIT

Debited when taxes are paid on 941.

## PAYROLL LIABILITIES

### MEDICARE TAX PAYABLE

DEBIT

CREDIT

EXACTLY THE SAME AS SOCIAL SECURITY TAX PAYABLE

## End of Chapter 9

