



# Instructions for Form 941

(Revised January 1996)

## Employer's Quarterly Federal Tax Return

(Section references are to the Internal Revenue Code unless otherwise noted.)

**Paperwork Reduction Act Notice.**—We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping . . . . .	11 hr., 43 min.
Learning about the law or the form . . . . .	28 min.
Preparing the form . . . . .	1 hr., 37 min.
Copying, assembling, and sending the form to the IRS . . . . .	.16 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **DO NOT** send the tax form to this address. Instead, see **Where To File** on page 2.

### Important Reminders

#### Federal Tax Deposits by Electronic Funds Transfer (EFT)

Generally, taxpayers whose total deposits of withheld income, social security, and Medicare taxes during calendar year 1993 or 1994 exceeded \$47 million are required to deposit all depository taxes due after 1995 by electronic funds transfer (EFT). TAXLINK, an electronic remittance processing system, must be used to make deposits by EFT. Taxpayers who are not required to make deposits by EFT may voluntarily participate in TAXLINK. For more details on TAXLINK, call the toll-free TAXLINK HELPLINE at 1-800-829-5469.

#### Social Security Wage Base for 1996

Stop withholding social security tax after an employee reaches **\$62,700** in taxable wages.

#### Form 945

Income tax withholding on nonpayroll payments made during 1995 must be reported on **Form 945**, Annual Return of Withheld Federal Income Tax. The return for 1995 is due January 31, 1996. Nonpayroll items include backup withholding and withholding on pensions, annuities, IRAs, Indian gaming profits, and gambling winnings. Get the separate **Instructions for Form 945** for more information.

All income tax withholding reported on Forms 1099 or W-2G must be reported on Form 945. All income tax withholding reported on Form W-2 must be reported on Form 941 (or 943). For example, because distributions from nonqualified pension plans and nonqualified deferred compensation plans are treated as wages and are reported on Form W-2, they must be reported on Form 941, not Form 945.

#### Household Employees

If you do not elect to report employment taxes for wages paid to household employees on Form 941, report them annually on the new **Schedule H (Form 1040)**, Household Employment Taxes.

File Schedule H for 1995 with your individual tax return (e.g., Form 1040 or 1040A). See **Pub. 926**, Household Employer's Tax Guide, for more information.

### General Instructions

**Purpose of Form.**—To report—

- Income tax you withheld from wages, including tips, supplemental unemployment compensation benefits, and third-party payments of sick pay.
- Social security and Medicare taxes.

**Who Must File.**—Employers who withhold income tax on wages, social security tax, or Medicare tax, must file Form 941 quarterly. If you filed Form 941 on magnetic tape, do not also file a paper Form 941.

**Seasonal employers** are not required to file for quarters when they regularly have no tax liability because they have paid no wages. To alert the IRS that you will not have to file a return for one or more quarters during the year, check the **Seasonal employer** box above line 1 on page 1. The IRS will mail two Forms 941 to you once a year after March 1. The preprinted label will not include the date the quarter ended. You must enter the date the quarter ended when you file the return. The IRS will generally not inquire about unfiled returns if at least one taxable return is filed each year. However, you must check the **Seasonal employer** box on each quarterly return you file. Otherwise, the IRS will expect a return to be filed for each quarter.

Employers who report wages on household employees, see Circular E and **Pub. 926**, Household Employer's Tax Guide.

Employers who report wages on farmworkers, see **Form 943**, Employer's Annual Tax Return for Agricultural Employees, and Circular A.

**Business Reorganization or Termination.**—If you sell or transfer your business, both you and the new owner must file a return for the quarter in which the change took place. Neither should report wages paid by the other. (An example of a transfer is when a sole proprietor forms a partnership or corporation. The partnership or corporation is considered a new business and must apply for a new employer identification number (EIN). See section 1 of Circular E.) If a change occurs, please attach to your return a statement that shows: new owner's name (or new name of the business); whether the business is now a sole proprietorship, partnership, or corporation; kind of change that took place (sale, transfer, etc.); and date of the change.

When a business is merged or consolidated with another, the continuing firm must file the return for the quarter in which the change took place. The return should show all wages paid for that quarter. The other firm should file a final return.

*If you go out of business or stop paying wages, file a final return. Be sure to mark the final return checkbox and enter the date final wages were paid above line 1. You may also file Forms W-2 with the Social Security Administration now, but not later than February 28, 1997.*

**Form Preparation Suggestions.**—The red color of Form 941 permits machine scanning, which results in faster and more accurate processing. Following are suggestions that will allow the IRS to process Form 941 by machine scanning:

- Make dollar entries without the dollar sign and comma (0000.00).
- Use the "red" Form 941 provided by the IRS.
- Entries should not be handwritten; type or machine print data entries using black ink.
- Do not staple, tape, or clip anything to the form.
- Do not tear.

**When To File.**—File starting with the first quarter in which you are required to withhold income tax or pay wages subject to social security and Medicare taxes.

Quarter	Ending	Due Date
Jan.-Feb.-Mar.	March 31	April 30
Apr.-May-June	June 30	July 31
July-Aug.-Sept.	Sept. 30	Oct. 31
Oct.-Nov.-Dec.	Dec. 31	Jan. 31

If you deposited all taxes when due for a quarter, you have 10 more days after the above due date to file. If the due date for filing a return falls on a Saturday, Sunday, or legal holiday, you may file the return on the next business day.

After you file your first return, we will send you a form every 3 months. Please use this form. If you don't have a form, get one from an IRS office in time to file the return when due.

**Where To File.**—In the list below, find the state where your legal residence, principal place of business, office, or agency is located. Send your return to the **Internal Revenue Service** at the address listed for your location. No street address is needed.

**Note:** *Where you file depends on whether or not you are including a payment.*

Florida, Georgia, South Carolina

<b>Return without payment:</b> Atlanta, GA 39901-0005	<b>Return with payment:</b> P.O. Box 105703 Atlanta, GA 30348-5703
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New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)

<b>Return without payment:</b> Holtsville, NY 00501-0005	<b>Return with payment:</b> P.O. Box 416 Newark, NJ 07101-0416
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New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

<b>Return without payment:</b> Andover, MA 05501-0005	<b>Return with payment:</b> P.O. Box 371493 Pittsburgh, PA 15250-7493
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Illinois, Iowa, Minnesota, Missouri, Wisconsin

<b>Return without payment:</b> Kansas City, MO 64999-0005	<b>Return with payment:</b> P.O. Box 970007 St. Louis, MO 63197-0007
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Delaware, District of Columbia, Maryland, Pennsylvania, Virginia

<b>Return without payment:</b> Philadelphia, PA 19255-0005	<b>Return with payment:</b> P.O. Box 8786 Philadelphia, PA 19162-8786
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Indiana, Kentucky, Michigan, Ohio, West Virginia

<b>Return without payment:</b> Cincinnati, OH 45999-0005	<b>Return with payment:</b> P.O. Box 7329 Chicago, IL 60680-7329
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Kansas, New Mexico, Oklahoma, Texas

<b>Return without payment:</b> Austin, TX 73301-0005	<b>Return with payment:</b> P.O. Box 970013 St. Louis, MO 63197-0013
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Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming

**Return without payment:**  
Ogden, UT 84201-0005

**Return with payment:**  
P.O. Box 7922  
San Francisco, CA 94120-7922

California (all other counties), Hawaii

**Return without payment:**  
Fresno, CA 93888-0005

**Return with payment:**  
P.O. Box 60407  
Los Angeles, CA 90060-0407

Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee

**Return without payment:**  
Memphis, TN 37501-0005

**Return with payment:**  
P.O. Box 70503  
Charlotte, NC 28272-0503

If you have no legal residence or principal place of business in any state

**All returns:**  
Philadelphia, PA 19255-0005

**Forms W-4.**—Each quarter, send with Form 941 copies of any Forms W-4 received during the quarter from employees claiming (1) more than 10 withholding allowances or (2) exemption from income tax withholding if their wages will normally be more than \$200 a week. For details, see section 9 of Circular E.

**Form W-5.**—Each eligible employee wishing to receive any advance earned income credit (EIC) payments must give you a completed Form W-5. The employer's requirement to notify certain employees about the EIC can be met by giving each eligible employee **Notice 797**, Possible Federal Tax Refund Due to the Earned Income Credit (EIC). See Circular E and **Pub. 596**, Earned Income Credit, for more information.

**Employer Identification Number (EIN).**—If you do not have an EIN, apply for one on **Form SS-4**, Application for Employer Identification Number. Get this form from the IRS or the Social Security Administration (SSA). If you do not have an EIN by the time a return is due, write "Applied for" and the date you applied in the space shown for the number. You can receive your EIN over the telephone and use it immediately to file a return or make a payment (get Form SS-4 instructions for details).

**Note:** *Always be sure the EIN on the form you file matches the EIN assigned to your business by the IRS. Do not show your personal social security number on forms calling for an EIN. Filing a Form 941 with an incorrect EIN or using another business' EIN may result in penalties and delays in processing your return.*

**Penalties and Interest.**—There are penalties for filing a return late and paying or depositing taxes late, unless there is reasonable cause. If you are late, please attach an explanation to your return. There are also penalties for willful failure to file returns and pay taxes when due, furnish Forms W-2 to employees and file copies with the SSA, keep records, deposit taxes when required, and for filing false returns or submitting bad checks. Interest is charged on taxes paid late at the rate set by law. See Circular E for additional information.

**Caution:** *A trust fund recovery penalty may apply where income, social security, and Medicare taxes that should be withheld are not withheld or are not paid to the IRS. Under this penalty, certain officers or employees of a corporation, employees of a sole proprietorship, or partners or employees of a partnership become personally liable for payment of the taxes and are penalized an amount equal to the unpaid taxes. This penalty may be applicable when these unpaid taxes cannot be immediately collected from the employer or business. The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to be responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. Willfully in this case means voluntarily, consciously, and intentionally. Please see Circular E for more information concerning who may be liable for the trust fund recovery penalty.*

**Depositing Taxes.**—Use **Form 8109**, Federal Tax Deposit Coupon, to deposit your taxes. See section 11 of Circular E for information and rules concerning Federal tax deposits.

Do not use the deposit coupons to pay delinquent taxes for which you have received a notice from the IRS. These payments should be sent directly to your Internal Revenue Service Center with a copy of any related notice the IRS sent you.

**State Code.**—If you made your deposits in a state other than that shown in your address on Form 941, enter the state code for that state in the box provided in the upper left corner of the form. Use the Postal Service two-letter state abbreviation as the state code. Enter the code “MU” in the state code box if you deposit in more than one state. If you deposit in the same state as shown in your address, do not make an entry in this box.

**Related Publications.**—Circular E explains the rules for withholding, paying, depositing, and reporting Federal income tax, social security and Medicare taxes, and Federal unemployment (FUTA) tax on wages and fringe benefits. See **Pub. 15-A**, Employer’s Supplemental Tax Guide, for specialized employment tax information not included in Circular E. **Circular A**, Agricultural Employer’s Tax Guide, explains rules for employers who have farm workers. These publications are available free at IRS offices.

## Specific Instructions

**Reconciliation of Forms 941 and W-3.**—Certain amounts reported on the four quarterly Forms 941 for 1995 should agree with the **Form W-2**, Wage and Tax Statement, totals reported on **Form W-3**, Transmittal of Wage and Tax Statements, or with information filed on equivalent magnetic media reports with the SSA. The amounts that should agree are income tax withholding, social security wages, social security tips, Medicare wages and tips, and the advance earned income credit. If the totals do not agree, the IRS will require you to explain any differences and correct any errors. You can avoid this by making sure correct amounts (including adjustments) are reported on Forms 941 and W-3. See section 12 of Circular E for more details.

**Line 1—Number of employees.**—Enter the number of employees on your payroll during the pay period including March 12 (on the January–March calendar quarter return only). Do not include household employees, persons who received no pay during the pay period, pensioners, or members of the Armed Forces. An entry of 250 or more on line 1 indicates a need to file wage reports on magnetic media. You should immediately request Publication TIB-4 from the SSA if not already a magnetic media filer. Call 1-800-772-1213 for more information.

**Line 2.**—Enter the total of all wages paid, tips reported, taxable fringe benefits provided, and other compensation paid to your employees, **even if you do not have to withhold income or social security and Medicare taxes on it.** Do not include supplemental unemployment compensation benefits, even if you withheld income tax on them. Do not include contributions to employee plans that are excluded from the employee’s wages (e.g., section 401(k) and 125 plans).

If you get timely notice from your insurance carrier concerning the amount of third-party sick pay it paid your employees, include the sick pay on line 2. If you are an insurance company, do not include sick pay you paid policyholders’ employees here if you gave the policyholders timely notice of the payments. See Pub. 15-A for more details.

**Line 3.**—Enter the income tax you withheld on wages, tips, taxable fringe benefits, and supplemental unemployment compensation benefits. An insurance company should enter the income tax it withheld on third-party sick pay here.

**Line 4—Adjustment of withheld income tax.**—Use line 4 to correct errors in income tax withheld from wages paid in earlier quarters of the same calendar year. You may not adjust or claim a refund or credit for any overpayment of income tax that you withheld or deducted from an employee in a prior year. This is because the employee uses the amount shown on Form W-2 as a credit when filing his or her income tax return (Form 1040, etc.). Because any amount shown on line 4 increases or decreases your tax liability, the adjustment must be taken into

account on line 17, Monthly Summary of Federal Tax Liability, or on **Schedule B (Form 941)**, Employer’s Record of Federal Tax Liability. Your deposit requirements determine which liability report is used. For details on how to report adjustments on the record of Federal tax liability, see the instructions for line 17 (on page 4) or the instructions for Schedule B (Form 941).

Explain any amount on **Form 941c**, Supporting Statement To Correct Information, or attach a statement that shows (a) what the error was, (b) quarter in which the error was made, (c) the amount of the error for each quarter, (d) date on which you found the error, and (e) how you and your payees have settled any overcollection or undercollection.

*Do not adjust income tax withholding for quarters in earlier years unless it is to correct an administrative error. An administrative error occurs if the amount you entered on Form 941 is not the amount you actually withheld. For example, if the total income tax actually withheld was incorrectly reported on Form 941 due to a mathematical or transposition error, this would be an administrative error. The administrative error adjustment corrects the amount reported on Form 941 to agree with the amount actually withheld from the employees.*

**Line 5—Adjusted total of income tax withheld.**—Add line 4 to line 3 if you are reporting additional income tax withheld for an earlier quarter. Subtract line 4 from line 3 if you are reducing the amount of income tax withheld. If there is no entry on line 4, the entry will be the same as line 3.

**Line 6a—Taxable social security wages.**—Enter the total wages subject to social security taxes that you paid your employees during the quarter. Also include any sick pay and taxable fringe benefits subject to social security taxes. See section 5 of Circular E for information on types of wages subject to social security taxes. Enter the amount before deductions. Do not include tips on this line. Stop reporting an employee’s wages (including tips) when they reach \$62,700 for 1996. However, continue to withhold income tax for the whole year on wages and tips even when the social security wage base of \$62,700 is reached. See the line 7 instructions for Medicare tax. **If none of the payments are subject to social security tax, mark the checkbox in line 8.**

**Line 6b—Taxable social security tips.**—Enter all tips your employees reported during the quarter, until tips and wages for each employee reach \$62,700 in 1996. Do this even if you were not able to withhold the employee tax (6.2%). However, see the line 9 instructions.

An employee must report to you cash tips, including tips you paid the employee for charge customers, totaling \$20 or more in a month by the 10th of the next month. The employee may use **Form 4070**, Employee’s Report of Tips to Employer, or a written statement.

Do not include allocated tips on this line. Instead, report them on **Form 8027**, Employer’s Annual Information Return of Tip Income and Allocated Tips. Allocated tips are not reportable on Form 941 and are not subject to withholding of income, social security, or Medicare taxes.

**Line 7—Taxable Medicare wages and tips.**—Use this line to report all wages and tips subject to the Medicare portion of social security. Also include any sick pay and taxable fringe benefits subject to Medicare taxes. See section 5 of Circular E for information on types of wages subject to Medicare taxes. There is no limit on the amount of wages subject to Medicare tax. **If none of the payments are subject to Medicare tax, mark the checkbox in line 8.**

Include all tips your employees reported during the quarter, even if you were not able to withhold the employee tax (1.45%). However, see the line 9 instructions below.

**Line 9—Adjustment of social security and Medicare taxes.—***Current Period Adjustments.*—In certain cases, amounts reported as social security and Medicare taxes on lines 6a, 6b, and 7 must be adjusted to arrive at your correct tax liability. See section 13 of Circular E for information on the following adjustments:

- Adjustment for the uncollected employee share of social security and Medicare taxes on tips.

- Adjustment for the employee share of social security and Medicare taxes on group-term life insurance premiums paid for former employees.
- Adjustment for the employee share of social security and Medicare taxes for sick pay withheld by a third-party payer.
- Fractions of cents adjustment.

Enter the adjustments for sick pay and fractions-of-cents in the appropriate line 9 entry spaces. Enter the amount of all other adjustments in the "Other" entry space and enter the total of the three types of adjustments in the line 9 entry space to the right. Provide a supporting statement explaining any adjustments reported in the "Other" entry space.

**Prior Period Adjustments.**—Use line 9 to correct errors in social security and Medicare taxes reported on an earlier return. If you report both an underpayment and an overpayment, show only the difference.

Because any prior period adjustments shown on line 9 increase or decrease your tax liability, the adjustments must be taken into account on line 17, Monthly Summary of Federal Tax Liability, or on **Schedule B (Form 941)**, Employer's Record of Federal Tax Liability. Your deposit requirements determine which liability report is used. For details on how to report adjustments on the record of Federal tax liability, see the instructions for line 17 below or the instructions for Schedule B (Form 941).

Explain any prior period adjustments on Form 941c. DO NOT file Form 941c separately from Form 941. Form 941c is not an amended return, but is a statement providing necessary background information and certifications supporting the adjustments on lines 4 and/or 9 on Form 941. You can get Form 941c from the IRS or by calling 1-800-TAX-FORM (1-800-829-3676).

If you do not have a Form 941c, attach a statement that shows (a) what the error was; (b) ending date of each quarter in which the error was made and the amount of the error; (c) date on which you found the error; (d) that you repaid the employee tax or got each affected employee's written consent to this refund or credit, if the entry corrects an overcollection; and (e) if the entry corrects social security and Medicare taxes overcollected in an earlier year, that you got from the employee a written statement that he or she has not claimed and will not claim a refund or credit for the amount.

If you are adjusting an employee's social security wages or tips, Medicare wages or tips, or tax withheld for a prior year, you must file **Form W-2c**, Statement of Corrected Income and Tax Amounts. Send Copy A of the Form W-2c, together with **Form W-3c**, Transmittal of Corrected Income and Tax Statements, to the Social Security Administration, Data Operations Center, Wilkes-Barre, PA 18769-0001, regardless of where the original Forms W-2 were filed.

**Line 10—Adjusted total of social security and Medicare taxes.**—Add line 9 to line 8 if the net adjustment on line 9 is positive (e.g., you are reporting additional taxes for a prior period). Subtract line 9 from line 8 if the net adjustment on line 9 is negative.

**Line 12—Advance earned income credit (EIC) payments made to employees.**—Enter advance EIC payments made to employees, if any. Your eligible employees may elect to receive part of the EIC as an advance payment. Eligible employees who have a qualifying child must give you a completed Form W-5 stating that they qualify for the EIC. Once the employee gives you a signed and completed Form W-5, you must make the advance EIC payments. The advance EIC payments made to

eligible employees are generally made from withheld income tax and employee and employer social security and Medicare taxes. See section 10 of Circular E and Pub. 596 for more information on advance EIC payments and eligibility requirements.

If the amount of your advance EIC payments exceeds your total taxes (line 11) for the quarter, you may claim a refund of the overpayment or elect to have the credit applied to your return for the following quarter. Provide a statement with your return identifying the amount of excess payment(s) and the pay period(s) in which it was paid. See section 10 of Circular E for more details.

**Line 15—Balance due.**—You should have a balance due only if your net tax liability for the quarter (line 13) is less than \$500. (However, see section 11 of Circular E regarding payments made under the Accuracy of Deposits rule.) If line 13 is \$500 or more and you have deposited all taxes when due, the amount shown on line 15 (balance due) should be zero. **Caution:** *If you fail to make required deposits at a qualified depository and instead pay these amounts with your return, you may be subject to a penalty.* Enter your EIN, "Form 941," and the tax period to which the payment applies on your check or money order.

**Line 16—Overpayment.**—If you deposited more than the correct amount for a quarter, you can have the overpayment refunded or applied to your next return by checking the appropriate box. If you do not check either box, your overpayment will be applied to your next return. The IRS may apply your overpayment to any past-due tax account that we have under your EIN.

**Line 17—Monthly Summary of Federal Tax Liability.—Note:** *This is a summary of your monthly tax liability, NOT a summary of deposits made. If line 13 is less than \$500, you need not complete line 17 or Schedule B (Form 941).*

Complete line 17 if you are qualified to deposit on a monthly basis (see section 11 of Circular E for more details on the deposit rules). You are a monthly depositor for the calendar year if the amount of employment and withholding tax liability accumulated during the lookback period is not more than \$50,000. The lookback period is defined as the four consecutive quarters ending on June 30 of the prior year. For 1996, the lookback period begins 07/01/94 and ends 06/30/95. If you accumulated more than \$50,000 during the lookback period or accumulated \$100,000 or more on any day during a month, do not complete columns (a) through (d) of line 17. Instead, complete and attach Schedule B (Form 941).

**Reporting adjustments on line 17.**—If the net adjustment during a month is negative (e.g., correcting an overreported liability in a prior period) and it exceeds the total liability for the month, do not enter a negative amount for the month. Instead, enter -0- for the month and carry over the unused portion of the adjustment to the next month. For example, Pine Co. discovered on 02/09/96 that it overreported social security tax on a prior quarter return by \$2,500. Its employment tax liabilities for the 1st quarter of 1995 were: January \$2,000, February \$2,000, March \$2,000. Pine Co. should enter \$2,000 in column (a), -0- in column (b), \$1,500 in column (c), and \$3,500 in column (d). The prior period adjustment (\$2,500) offsets the \$2,000 liability for February and the excess \$500 must be used to offset March liabilities. Since the error was not discovered until February, it does not affect January liabilities reported in column (a).

If excess negative adjustments are carried forward to the next quarter, do not show these excess adjustments on lines 4 or 9. Line 17, column (d), must equal line 13.

