



Notice 1028
(Rev. October 1997)

Deposit Requirements for Nonpayroll Income Tax Withholding

Rules for determining when you deposit nonpayroll income tax withholding (reported on **Form 945**, Annual Return of Withheld Federal Income Tax) are discussed below. Under these rules, you will be either a monthly or a semiweekly schedule depositor. These schedules tell you when a deposit is due after a tax liability arises; that is, when you make a payment subject to withholding.

Prior to the beginning of each calendar year, you must determine which of the two deposit schedules you are required to use. The deposit schedule you must use is based on the total tax liability you reported on Form 945 during a **lookback period** as discussed below. Your deposit schedule is **not** determined by how often you make payments or deposits.

Lookback period. Your deposit schedule for a calendar year is determined from the total income tax withholding reported on your Form 945 for a calendar year **lookback period**. The lookback period is the second calendar year preceding the current calendar year. For example, the lookback period for calendar year 1998 is calendar year 1996. If you reported **\$50,000 or less** of withholding for the lookback period, you are a monthly schedule depositor; if you reported **more than \$50,000**, you are a semiweekly schedule depositor. There are two exception rules—the **\$500 rule** and the **\$100,000 next-day deposit rule**. The deposit rules and exceptions are discussed in the following sections.

If the taxes you reported in the lookback period were...	Then, you are a...
\$50,000 or less	Monthly Schedule Depositor
More than \$50,000	Semiweekly Schedule Depositor

Electronic deposit requirement. If your total deposits of Federal income tax withheld, social security, Medicare, and railroad retirement taxes were more than \$50,000 in 1996, you must make electronic deposits for **all** depository tax liabilities that occur after 1997. To make electronic deposits, you must enroll in the **Electronic Federal Tax Payment System (EFTPS)**. To enroll in EFTPS, call 1-800-945-8400 or 1-800-555-4477. For details, see **Circular E**, Employer's Tax Guide.

Employers Who Deposit Both Payroll and Nonpayroll Taxes

If you deposit both payroll and nonpayroll taxes, treat the taxes reportable on Form 945 separately from the taxes reportable on Form 941. Form 945 taxes and Form 941 taxes are not combined for purposes of determining when a deposit is due.

Monthly Deposit Schedule

You are a monthly schedule depositor for a calendar year if the total accumulated Form 945 taxes for the lookback period were \$50,000 or less. Under the **monthly deposit schedule**, you must deposit Form 945 taxes withheld on payments made during a calendar month by the 15th day of the following month.

New businesses. During the first calendar year of your business, your withholding for the lookback period is treated as zero. Therefore, you are a monthly schedule depositor for the first year of business (but see the **\$100,000 Next-Day Deposit Rule** later).

Monthly schedule example: Pine Co. has a monthly deposit schedule for 1998. It paid gambling winnings each Friday during March but did not pay any winnings during April. Under the monthly deposit schedule, Pine Co. must deposit the amounts withheld for the March payments by April 15. Pine Co. does not have a deposit requirement for April (due by May 15) because no gambling winnings were paid and, therefore, it did not have a tax liability for the month.

Semiweekly Deposit Schedule

You are a semiweekly schedule depositor for a calendar year if the total Form 945 withholding during your lookback period was more than \$50,000. Under the **semiweekly deposit schedule**, deposit taxes accumulated on payments made on Wednesday, Thursday, and/or Friday by the following Wednesday. Deposit taxes accumulated on payments made on Saturday, Sunday, Monday, and/or Tuesday by the following Friday.

The end of the calendar year always ends a semiweekly deposit period and begins a new one. For example, if the calendar year ends on Thursday, then Wednesday and Thursday are one deposit period in the year ended and Friday becomes a separate deposit period in the new year. Taxes accumulated on Wednesday and Thursday are subject to one deposit obligation and taxes accumulated on Friday are subject to a separate deposit obligation. Separate deposits are required because two different years are affected.

If you are a semiweekly schedule depositor:

Payment Days/ Deposit Periods	Deposit By:
Wednesday, Thursday, and/or Friday	Following Wednesday
Saturday, Sunday, Monday, and/or Tuesday	Following Friday

Semiweekly schedule example: Green Inc., which has a semiweekly deposit schedule, makes pension distributions once each month on the last day of the month. Although Green Inc. has a semiweekly deposit schedule, it will deposit just once a month because it makes distributions only once a month. The deposit, however, will be made under the semiweekly deposit schedule as follows: Green Inc.'s tax liability for the March 31, 1998 (Tuesday) distribution must be deposited by April 3, 1998 (Friday). Under the semiweekly deposit schedule, liabilities arising on Saturday through Tuesday must be deposited by the following Friday.

Deposits on Banking Days Only

If a deposit is due on a day that is not a banking day, the deposit is considered to have been made timely if it is made by the close of the next banking day. In addition to Federal and state bank holidays, Saturdays and Sundays are treated as nonbanking days. For example, if a deposit is due on a Friday and Friday is not a banking day, the deposit will be considered timely if it is made by the following Monday (if that Monday is a banking day).

A special rule is provided for **semiweekly schedule depositors** that allows at least 3 banking days to make a deposit. For example, if a semiweekly schedule depositor has withholding accumulated for payments made on Friday and the following Monday is not a banking day, deposits made by the following Thursday are considered timely (allowing 3 banking days to make the deposit).

\$500 Rule

If you accumulate a total tax liability of less than \$500 during a year, no deposits are required and this liability may be paid with Form 945. However, if you are unsure that you will accumulate less than \$500, deposit in accordance with the appropriate rules so that you will not be subject to deposit penalties.

\$100,000 Next-Day Deposit Rule

If \$100,000 or more is accumulated on any day during a deposit period, it must be deposited by the next banking day, whether you are a monthly or semiweekly schedule depositor. For monthly schedule depositors, the deposit period is a calendar month. The deposit periods for a semiweekly schedule depositor are Wednesday through Friday and Saturday through Tuesday. For purposes of the \$100,000 next-day deposit rule, do not continue accumulating withholding after the end of a deposit period. For example, if a semiweekly schedule depositor has accumulated a liability of \$95,000 on a Tuesday (of a Saturday-through-Tuesday deposit period) and accumulated a \$10,000 liability on Wednesday, the \$100,000 next-day deposit rule does not apply. Therefore, \$95,000 must be deposited by Friday and \$10,000 by the following Wednesday.

If you are a monthly schedule depositor and accumulate a \$100,000 withholding liability during a month, you become a semiweekly schedule depositor on the next day and remain so for the remainder of the calendar year and for the following calendar year.

Example of \$100,000 next-day deposit rule. Fir Co. started its business as a pension administrator on January 1, 1998. On January 7, it made pension distributions for the first time and withheld \$40,000. On January 14, Fir Co. distributed pensions and withheld \$60,000, bringing its accumulated liability to \$100,000. Because this was the first year of its business, the tax liability for its lookback period is considered to be zero, and it would be a monthly schedule depositor based on the lookback rules. However, because Fir Co. accumulated \$100,000 on January 14, it became a semiweekly schedule depositor on January 15. It will be a semiweekly schedule depositor for the remainder of 1998 and for 1999. Fir Co. is required to deposit the \$100,000 by January 15, the next banking day.

Adjustments and the Lookback Rule

Determine your tax liability for the lookback period based on the tax liability as **originally** reported on Form 945. If you made adjustments to correct errors on previously filed returns, these adjustments do not affect the amount of tax liability for the lookback period. If you report adjustments on your current Form 945 to correct errors on prior year returns, include these adjustments as part of your tax liability for the current year.

Example of adjustments and the lookback rule. A company originally reported on Form 945 a tax liability of \$45,000 for 1996. It discovered during January 1998 that the amount actually withheld during 1996 was \$55,000 and corrected this error with an adjustment on the 1998 return. The company is a monthly schedule depositor for 1998 because the lookback period tax liability is based on the amount originally reported and it was less than \$50,000. The \$10,000 adjustment (\$55,000 - \$45,000) is treated as part of the 1998 tax liability.

Accuracy of Deposits Rule

You are required to deposit 100% of your tax liability on or before the deposit due date. However, penalties will not be applied for depositing less than 100% if **both** of the following conditions are met:

1. Any deposit shortfall does not exceed the greater of \$100 or 2% of the amount of taxes otherwise required to be deposited, and
2. The deposit shortfall is paid or deposited by the shortfall makeup date as described below.

Monthly schedule depositor. Deposit or pay the shortfall with your return by the due date of Form 945. You may pay the shortfall with Form 945 even if the amount is \$500 or more.

Semiweekly schedule depositors. Deposit by the earlier of the first Wednesday or Friday that comes on or after the 15th of the month following the month in which the shortfall occurred, or, if earlier, the due date of Form 945. For example, if a semiweekly schedule depositor has a shortfall during May 1998, the shortfall makeup date is June 17, 1998 (Wednesday). However, if the shortfall occurred on the required January 2, 1998, deposit date for a December 29, 1997, pay date, the 1997 return due date (February 2) would come before the February 18 (Wednesday) shortfall makeup date. In this case, the shortfall would have to be deposited by February 2 to avoid penalties.

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