



Understanding
Federal Tax
Deposits

Resource Guide

It's a great feeling to have your own small business, isn't it? You're the boss! You have a lot of responsibility — to your customers, your suppliers and your employees. You want your business to grow and to be successful. You constantly make decisions that affect your success. Each decision creates new opportunities and provides a new learning experience. You welcome the challenge!

Your employees are one of your business' most valuable resources. In paying their salary, you have the responsibility of withholding taxes from their paycheck. This withholding includes your employees' income tax and their share of FICA (Social Security and Medicare). You must periodically send this money to the Treasury on their behalf. This is called a "federal tax deposit."

You may be wondering why these federal tax deposits are so important. As you just read, the deposits are actually part of your employees' wages. Equally important, the law requires that these deposits be made periodically. You could get large penalties if you don't make them when they are due.

This course was developed to help you better understand the rules for making these employment tax deposits so you can avoid these penalties. In fact, you could also get other penalties if you don't file your employment tax returns on time and pay the money you owe.



Through this course, we intend to make this process easier to understand. We can't guarantee you'll never have problems again with tax deposits, that's up to you. We will provide you with some tips that will save you time and money—resources that you can then devote to making your business even more successful.

Good luck with your business!

Table of Contents

| | |
|----------------------|---|
| Introduction | Why You are Here 1 Money Saving Opportunity |
| Chapter One | Trust Fund Taxes Are Important 3 Practical Exercise 1–4 |
| Chapter Two | Federal Tax Deposit Rules for Form 941 Taxes 5 Who must make deposits? What taxes must be deposited? When should you make Form 941 tax deposits? What’s your deposit schedule? (Lookback Period) Summary of Steps to Determine your Deposit Schedule Exceptions to Deposit Schedules Flowchart: When to Deposit Form 941 Taxes Practical Exercise 2 Description of Deposit Schedules Monthly Schedule Semiweekly Schedule |
| Chapter Three | Federal Tax Deposit Rules for Form 940 Taxes 13 Who makes deposits? What is deposited? When are deposits made? |
| Chapter Four | Where and How Federal Tax Deposits Are Made 15 Where are deposits made? How are deposits made? How does the Manual Method work? How does the Electronic Method work? Customer Service Numbers for EFTPS Practical Exercise 3 |
| Chapter Five | Federal Tax Deposit Penalties 20 Practical Exercise 4 |
| Chapter Six | Summary 23 |
| | Glossary 24 |
| | Answer Key for Practical Exercises |
| | Practical Exercise 1 26 |
| | Practical Exercise 2 26 |
| | Practical Exercise 3 27 |
| | Practical Exercise 4 27 |

Why You Are Here



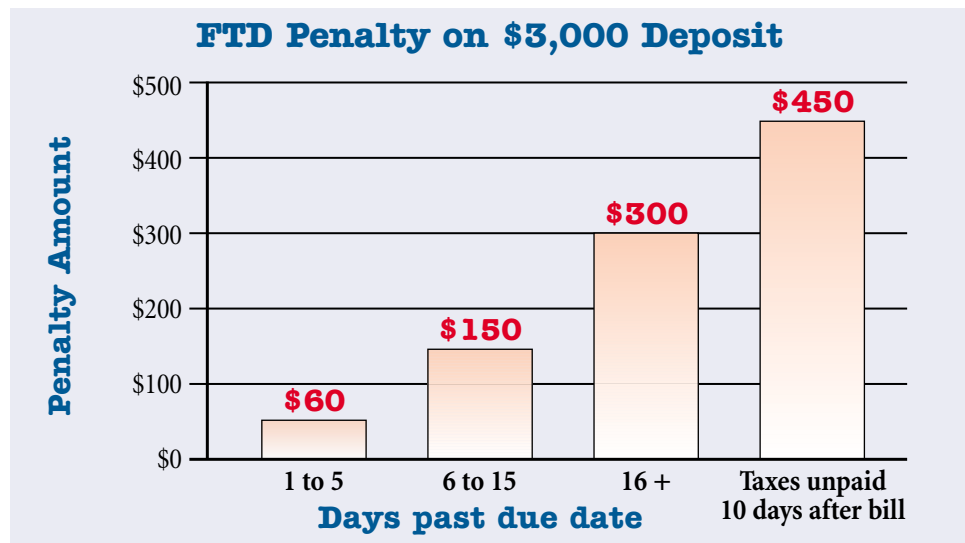
You are here to learn about making federal tax deposits. We are here to help you do that. Our goal is to give you the tools you need to:

- Understand the special nature of employment taxes.
- Compute the required deposit amounts for Form 941.
- Determine your deposit schedules and deposit due dates for Forms 941 and 940.
- Correctly complete Federal Tax Deposit coupons.
- Use the Electronic Federal Tax Payment System (EFTPS).
- Understand that penalties for late tax deposits are expensive.

As we've already mentioned, we'll be discussing the basics of federal tax deposits. We'll first look at what makes employment taxes different from other taxes, and we'll discuss the rules for depositing taxes related to Forms 941 and 940. Then we'll outline the two methods used to make tax deposits: a Federal Tax Deposit Coupon at your bank, or electronically through your phone or personal computer. Finally, we'll explain the financial consequences of not making correct deposits on time.

Use this Resource Guide, along with the information in the video, to get familiar with the requirements for making tax deposits. By putting this information into practice, you may avoid the resulting penalties and interest. That means money in your pocket. After all, isn't that why you're in business?

To illustrate how much it will cost you to make your Federal Tax Deposits late, consider this example: Assume your monthly liability for withheld income tax, Social Security and Medicare tax, and your employer's matching share totals \$3,000 per month. Review the graph below to see how quickly the penalty for making late deposits increases. As you can see, using your trust fund taxes to finance your business can be very expensive.



Trust Fund Taxes are Important

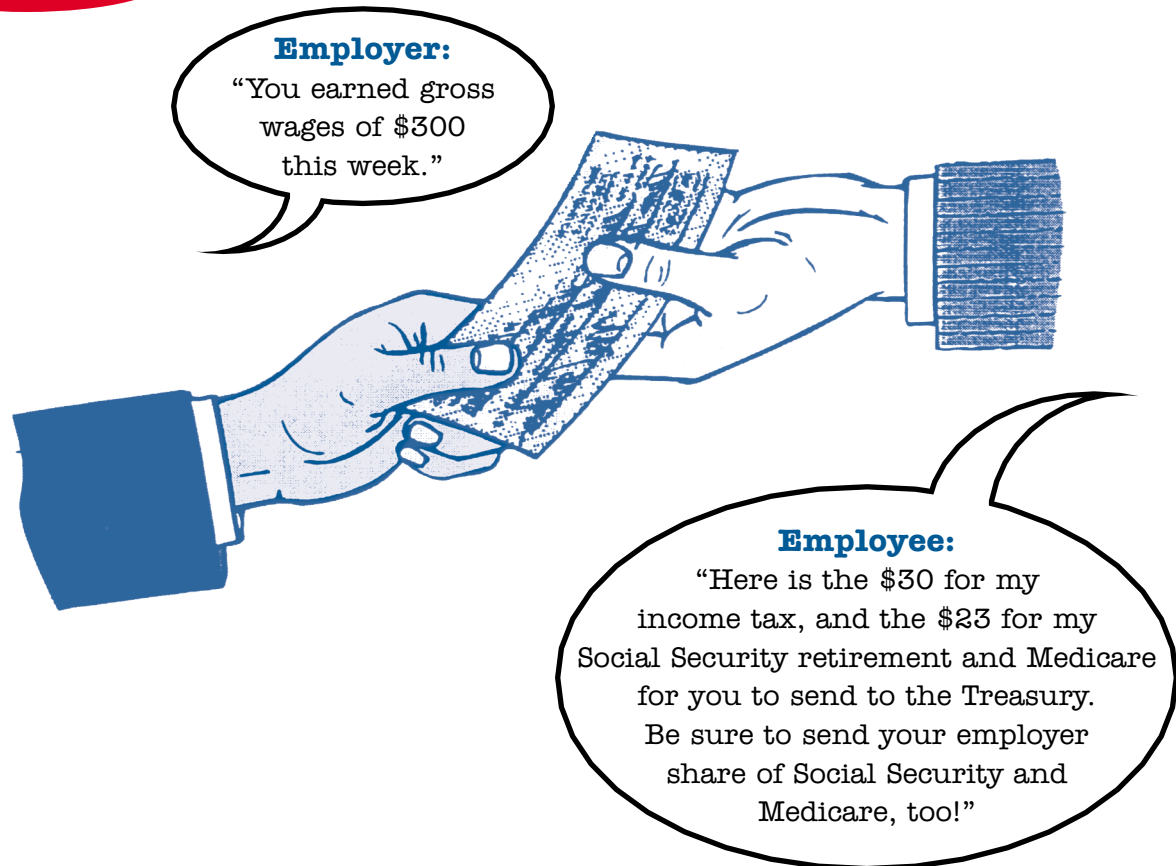
What it Means

Trust Fund Tax: Money withheld from an employee's wages (Income, Social Security and Medicare taxes) by an employer and held in trust until paid to the Treasury.

When you pay your employees, you do not pay them all the money they earned. The income tax and the employees' share of FICA (Social Security and Medicare) that you withhold from your employees' paychecks, are part of their wages you pay to the Treasury instead of to your employees. The portion of their wages you hold for transmitting to the Treasury is called "Trust Fund" taxes. Through this withholding, your employees pay their contributions toward their retirement benefits (Social Security and Medicare) and the income taxes reported on their own tax returns. Your employees' trust fund taxes, along with the employer's matching share of FICA, are paid to the Treasury through the Federal Tax Deposit (FTD) System.

As you can see, the part of your employees' wages that you do not give them is actually their money. You should deposit these amounts on time for their benefit. Postponing making the tax deposit isn't the same as using your own money to make a late payment on your phone bill or to a supplier. Of course, you can deduct your share of FICA as a current expense.

Congress established large penalties for employers that delay in turning over employment taxes to the Treasury. If you delay paying that money, the more it could cost you.



Employer:
"You earned gross wages of \$300 this week."

Employee:
"Here is the \$30 for my income tax, and the \$23 for my Social Security retirement and Medicare for you to send to the Treasury. Be sure to send your employer share of Social Security and Medicare, too!"

Practical Exercise One

1 Which of the following are “trust fund” taxes?

- A. Withheld income taxes
- B. Employer’s portion of Social Security and Medicare
- C. Employee’s portion of Social Security and Medicare
- D. A and B
- E. A and C
- F. B and C

2 The money in trust fund tax deposits actually belongs to:

- A. Stockholders
- B. Business Owner
- C. Customers
- D. Employees



Federal Tax Deposit Rules for Form 941 Taxes

Now that you understand federal tax deposits are important, you are ready to learn the rules for making the deposits.

Who must make deposits?

Deposits are required if you file Form 941 with \$2,500 or more in taxes per quarter.

What it Means

Form 941 (Employer's Quarterly Federal Tax Return): Return reporting federal income tax withheld, and employer and employee shares of Social Security and Medicare. The return is due the last day of the month following the end of the quarter.

FICA: Federal Insurance Contributions Act, which provides for Social Security and Medicare benefits.

What taxes must be deposited?

- Income tax withheld from your employees
- FICA (Social Security and Medicare) tax withheld from your employees
- FICA (Social Security and Medicare) — the employer's share

Alert Important Difference

- Making deposits and filing employer returns with payments are not the same. Taxes are:
 - ✓ **Reported** by filing, and
 - ✓ **Paid** by depositing

Let's review this payroll record to compute the amount of taxes to be deposited for July.

| XYZ Company | | | | | |
|--------------------------------|-------------|---------------------|-----------------|-------------|-----------------|
| Payroll Record for July | | | | | |
| | COLUMN A | COLUMN B | COLUMN C | COLUMN D | COLUMN E |
| EMPLOYEE | GROSS WAGES | INCOME TAX WITHHELD | EMPLOYEE'S FICA | NET WAGES | EMPLOYER'S FICA |
| • Joe | \$ 1,000.00 | \$ 150.00 | \$ 76.50 | \$ 773.50 | \$ 76.50 |
| • Jane | 1,200.00 | 180.00 | 91.80 | 928.20 | 91.80 |
| • John | 1,800.00 | 270.00 | 137.70 | 1,392.30 | 137.70 |
| Totals | \$ 4,000.00 | \$ 600.00 | \$ 306.00 | \$ 3,094.00 | \$ 306.00 |

$$\begin{aligned}
 & \mathbf{B + C + E = Total\ Deposit\ Due} \\
 & \mathbf{600 + 306 + 306 = \$1,212}
 \end{aligned}$$

In this example, the employer would deposit \$1,212, the total of the income tax withheld, and both the employer's and employees' shares of FICA (Social Security and Medicare).

When should you make Form 941 tax deposits?

The easiest way is to make a deposit the **same day** you make payroll, or anytime **no later than the deposit due date**.

- If your total taxes for the quarter are less than \$2,500, they can be paid with the return or deposited by the return due date.
- If your total taxes on Form 941 are \$2,500 or more, you'll need to determine which deposit schedule to follow.

What it Means

Lookback Period:

A 12-month period that ends June 30 of the prior year.

The total tax liability reported during the lookback period is used to determine which deposit schedule a business uses during the current year:

*\$50,000 or less – follow the **Monthly Deposit Schedule***

*More than \$50,000 – follow the **Semiweekly Deposit Schedule***

What is your deposit schedule?

To determine your deposit schedule, you need to review the amounts of tax reported on your earlier Forms 941. This will establish your “lookback period,” which is the twelve month period ending June 30 of the previous year. For 2002 taxes, you need to look back from July 1, 2000 to June 30, 2001. In other words, you look back the last two quarters of 2000 and the first two quarters of 2001.

| Lookback period for 2002 Deposits | |
|------------------------------------|-------------------------|
| JULY 1, 2000 THROUGH JUNE 30, 2001 | |
| 2000 | 2001 |
| THIRD & FOURTH QUARTERS | FIRST & SECOND QUARTERS |
| 7/1/00 THROUGH 9/30/00 | 1/1/01 THROUGH 3/31/01 |
| 10/1/00 THROUGH 12/31/00 | 4/1/01 THROUGH 6/30/01 |

Alert If you are a new employer and had no employees during the lookback period, you are automatically a Monthly Schedule Depositor. Two exceptions to this rule are covered later in this chapter.

After you determine your lookback period, you need to total the taxes reported on Forms 941, Line 11, during this period. Once you determine your total tax during the lookback period, it is easy to determine your deposit schedule:

- If total taxes are \$50,000 or less, you make **Monthly Schedule Deposits**.
- If total taxes are greater than \$50,000 you make **Semiweekly Schedule Deposits**.

Let's go over an example to help determine your deposit schedule for 2002. Since the Lookback period is July 1, 2000, to June 30, 2001, we need to add the taxes from Forms 941, Line 11, for the third and fourth quarters of 2000 and the first and second quarters of 2001.

| Quarter | Tax from Line 11, Form 941 |
|---------------------------------------|----------------------------|
| A THIRD 2000 | \$ 10,000 |
| B FOURTH 2000 | + 9,000 |
| C FIRST 2001 | + 5,000 |
| D SECOND 2001 | + 11,000 |
| E TOTAL TAX IN LOOKBACK PERIOD | = \$ 35,000 |

In this example, the total taxes (line E) during the lookback period were \$35,000. Since this is less than \$50,000, the business will be a monthly schedule depositor for 2002.

Summary of Steps to Determine Your Deposit Schedule

- 1** Identify lookback period.
- 2** Add the total taxes (line 11 of Form 941) you reported during the lookback period.
- 3** Determine your deposit schedule:

What it means

Deposit Period – The period of time during which an employer accumulates tax liability for paying to the Treasury on the next due date. Deposit periods vary depending on which deposit schedule the employer must follow.

| <i>If the total taxes you reported in the lookback period were...</i> | <i>Then you are a...</i> |
|---|--------------------------------------|
| \$50,000 or less | Monthly Schedule Depositor |
| More than \$50,000 | Semiweekly Schedule Depositor |

Alert Employers are required to determine their own deposit schedule. Deposit schedules remain the same for the entire calendar year unless you meet one of the exceptions explained below.

Exceptions to Deposit Schedules

1 \$100,000 Next- Day Deposit Rule:

- If, during any **deposit period**, you accumulate a tax liability of \$100,000 or more, you must make a deposit by the next banking day.
- Once you meet the \$100,000 next-day rule, you follow the semiweekly schedule for all deposits less than \$100,000. You are a semiweekly schedule depositor for the rest of the year, and during all of the next calendar year.

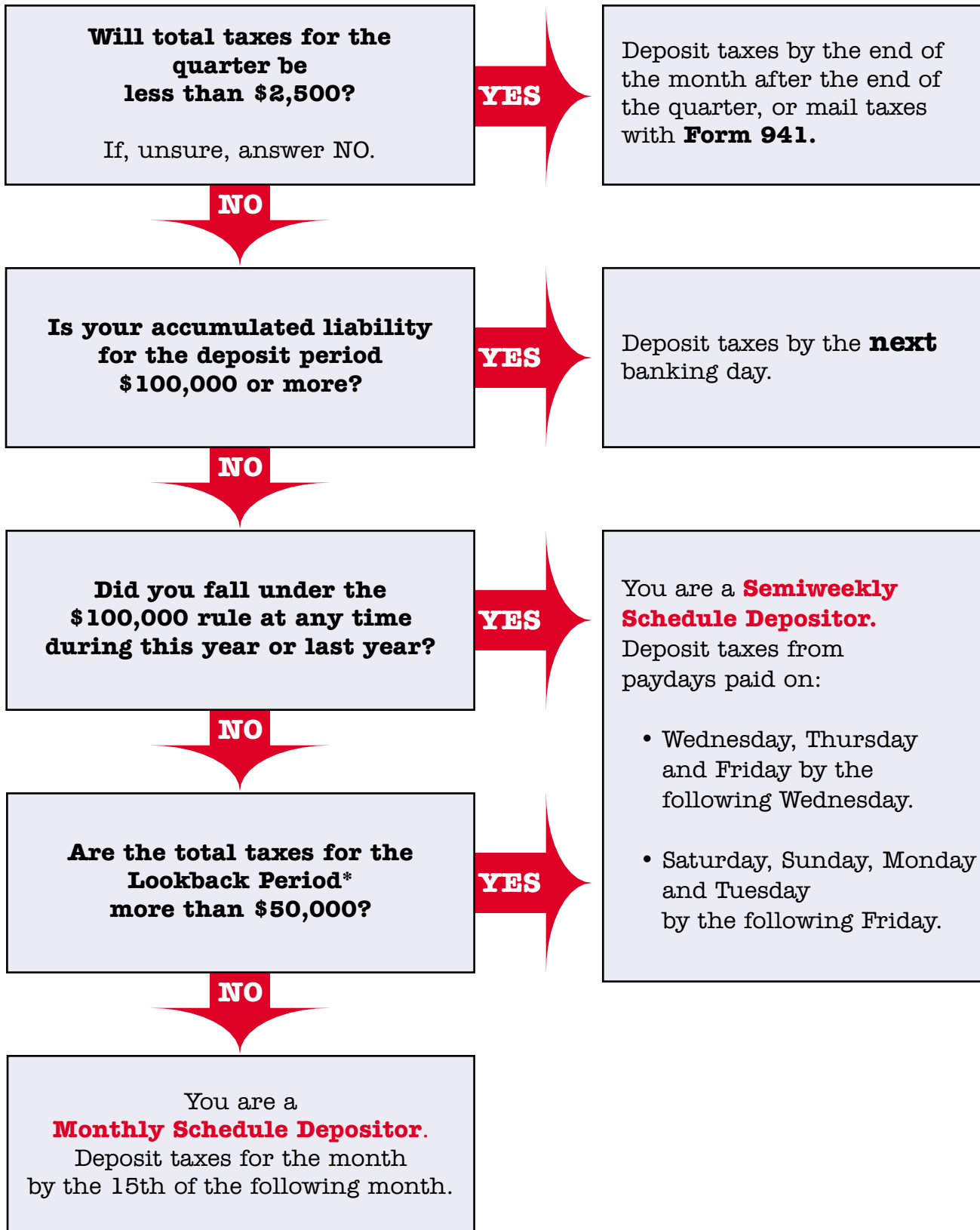
2 Banking Days

- If your deposit is due on a non-banking day, make it by the close of the next banking day.
- Federal and state bank holidays, Saturdays and Sundays are non-banking days.

Helpful hint: Use the easy-to-follow flow chart on the next page to help you determine your deposit schedule.



When to Deposit Form 941 Employment Taxes



Practical Exercise 2:

- 1** To determine when deposits are due for 2002, compute the tax liability in the Lookback period using the information from the following list of Form 941s and the chart below.

| Form 941 Quarter | Tax |
|------------------|---------|
| FIRST 2000 | \$9,200 |
| SECOND 2000 | \$8,800 |
| THIRD 2000 | \$8,000 |
| FOURTH 2000 | \$8,500 |
| FIRST 2001 | \$9,000 |
| SECOND 2001 | \$9,090 |
| THIRD 2001 | \$9,100 |
| FOURTH 2001 | \$9,300 |

| | Quarter | Amount from Line 11, Form 941 |
|---|---------|----------------------------------|
| A | | + |
| B | | + |
| C | | + |
| D | | + |
| E | Total | = |

See page 26 for answers to Practical Exercise 2.

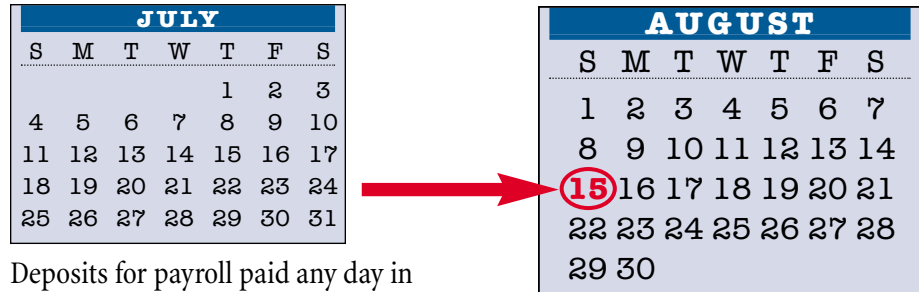
- 2** Based on your answer to Question 1 , which deposit schedule would you follow in making your FTDs?
- A. Quarterly
 - B. Semiweekly
 - C. Monthly
- 3** Which deposit schedule would you follow in making your FTDs if this is the first quarter that the business has employees and the tax liability was \$5,000 for the quarter?
- A. Quarterly
 - B. Semiweekly
 - C. Monthly



Description of Deposit Schedules

Now that you know how to determine if you are a **Monthly** Schedule Depositor or a **Semiweekly** Schedule Depositor, you are ready to learn the deposit requirements for each schedule.

- 1 Monthly Schedule Depositors** — Deposit each month’s taxes by the 15th of the next month.



Deposits for payroll paid any day in July are due on (or before) August 15.

- 2 Semiweekly Schedule Depositors** — Most employers will make deposits on Wednesdays or Fridays, depending on when you pay payroll.

| ANY WEEK | | | | | | |
|----------|--------|--------|-----|-----|---------|--------|
| SUN | MON | TUE | WED | THU | FRI | SAT |
| | | | | | | Payday |
| Payday | Payday | Payday | | | Deposit | |

For wages paid Saturday, Sunday, Monday or Tuesday, deposit taxes by following Friday.

| ANY WEEK | | | | | | |
|----------|-----|-----|---------|--------|--------|-----|
| SUN | MON | TUE | WED | THU | FRI | SAT |
| | | | Payday | Payday | Payday | |
| | | | Deposit | | | |

For wages paid Wednesday, Thursday, or Friday, deposit taxes by following Wednesday.

Alert “Semiweekly” depositors only have to make deposits twice a week if they pay payroll more than once a week. For example, if you paid hourly employees on Fridays, and salaried employees on the fifth and 20th of a month, you may end up with two different paydays in a week, and could have to make one deposit on Wednesday and another on Friday.



Remember!

- 1** Deposits can be made anytime from payday through the deposit due date.
- 2** Deposit rules are based on when wages are **paid**, not **earned**. (For example, a monthly schedule depositor with wages **earned** in June but **paid** in July, must deposit by August 15.)
- 3** The terms “**Monthly Schedule Depositor**” and “**Semiweekly Schedule Depositor**”:
 - **DO** refer to which set of rules you should follow to make deposits, but
 - **DON’T** refer to how often you pay wages, or make deposits.
- 4** A **Monthly Schedule Depositor** deposits taxes from all paydays in a month by the 15th of the next month, even if they pay wages every week.
- 5** A **Semiweekly Schedule Depositor** deposits taxes by the Wednesday or Friday following payday, even if they pay wages only once a month.
- 6** **Deposit Periods**—period of time that undeposited taxes are accumulated for payment to the Treasury:
 - Calendar month for **Monthly Schedule Depositors**;
 - Wednesday through Friday, or Saturday through Tuesday for **Semiweekly Schedule Depositors**.

Federal Tax Deposit Rules for Form 940 Taxes

In addition to Form 941 taxes, employers are also responsible for Federal Unemployment Tax Act (FUTA) taxes which are reported on Form 940. Only the employer pays FUTA—it is not deducted from employees' wages and is not a trust fund tax.

Form 940
Department of the Treasury
Internal Revenue Service (99)

Employer's Annual Federal Unemployment (FUTA) Tax Return
OMB No. 1545-0028
2001

▶ See separate Instructions for Form 940 for information on completing this form.

Name (as distinguished from trade name) _____ Calendar year _____
Trade name, if any _____
Address and ZIP code _____ Employer identification number _____

A Are you required to pay unemployment contributions to only one state? (If "No," skip questions B and C.) Yes No
B Did you pay all state unemployment contributions by January 31, 2002? ((1) If you deposited your total FUTA tax when due, check "Yes" if you paid all state unemployment contributions by February 12, 2002 (2) If a 0% experience rate is granted, check "Yes." (3) If "No," skip question C.) Yes No
C Were all wages that were taxable for FUTA tax also taxable for your state's unemployment tax? Yes No

If you answered "No" to any of these questions, you must file Form 940. If you answered "Yes" to all the questions, you may file Form 940-EZ, which is a simplified version of Form 940. (Successor employers see **Special credit for successor employers** on page 3 of the instructions.) You can get Form 940-EZ by calling 1-800-TAX-FORM (1-800-829-3676) or from the IRS Web Site at www.irs.gov.

If you will not have to file returns in the future, check here (see **Who Must File** in separate instructions), and complete and sign the return ▶
If this is an Amended Return, check here. ▶

Part I Computation of Taxable Wages
1 Total payments (including payments shown on lines 2 and 3) during the calendar year for _____

What it means

Form 940, Employer's Annual Federal Unemployment Tax Return – Return reporting federal unemployment tax, due January 31st of the following year.

Who must make deposits?

An employer with more than \$100 in undeposited FUTA tax at the end of any quarter. This includes any FUTA tax that was not deposited in a prior quarter during the calendar year.

How is the amount of deposit determined?

The tax applies only to the first \$7,000 paid to each employee each year (see Circular E for additional information). Generally, you will multiply the wages by .008 (.8%) to determine FUTA tax liability. This may differ if any wages subject to federal unemployment tax are exempt from state unemployment tax. Circular E and the instructions for Form 940 provide more information.

Let's look at this example to determine how to compute the FUTA tax deposit for the first quarter of the year.

| Payroll for Quarter Ending March 31 | | | | |
|--|-----------------|----------------------------|---|-------------------------------|
| A | B | C | D | E |
| EMPLOYEE | GROSS WAGES | WAGES SUBJECT TO STATE TAX | WAGES SUBJECT TO FEDERAL TAX (UP TO \$7,000 PER EMPLOYEE PER YEAR) | FUTA TAX (COLUMN D X .008) |
| Joe | \$6,000 | \$6,000 | \$6,000 | \$48 |
| Jane | \$8,000 | \$8,000 | \$7,000 | \$56 |
| John | \$5,000 | \$5,000 | \$5,000 | \$40 |
| TOTAL | \$19,000 | \$19,000 | \$18,000 | \$144 |

The amount to be deposited is \$144

When are deposits made?

As with Form 941, your deposit schedule depends on the amount you are depositing.

- You should make quarterly deposits when undeposited taxes reach more than \$100. The deposit is due the last day of the month following the end of the quarter.
- In the example above, the \$144 deposit would be due by April 30, since the quarter ended March 31. Other deposits would be due July 31, October 31, and January 31.
- If undeposited tax is \$100 or less, it can be held over to the next quarter. If annual tax is \$100 or less, it can be paid with the 940 return or deposited by the return due date.



Where are deposits made?

You make federal tax deposits at any authorized financial institution, such as a commercial bank. As an alternative, you may mail the deposits to:

Financial Agent
Federal Tax Deposit Processing
P.O. Box 970030
St. Louis, MO 63197

Alert You must not send these tax deposits directly to the IRS because this will delay getting the money into the Treasury. If you do send the deposit to the IRS, you may get a penalty.

How are deposits made?

Deposits can be made:

- 1** manually with Form 8109, or
- 2** electronically using your phone or computer.

What it means

Employer Identification Number (EIN): A permanent identification number assigned to each business to use when making tax deposits and for filing all required tax returns.

How are deposits made manually?

- 1** Complete a Federal Tax Deposit Coupon, Form 8109.
- 2** Mail or deliver the Form 8109, deposit coupon with your payment so that it will arrive at the bank no later than the deposit due date.

How do I get the Form 8109 deposit coupon book?

New employers are sent an FTD coupon book after applying for an Employer Identification Number (EIN). These coupons are preprinted with your name, address and EIN. You should receive replacement books as you use up your current supply. Please call 1-800-829-1040 to reorder coupons at least 60 days prior to running out.

How do I make deposits if I run out of the preprinted coupon book?

A coupon must accompany all federal tax deposits. If you have no preprinted forms, use Form 8109-B, which is available from most local IRS offices.

NOTE: Make sure that your name and EIN are entered correctly when using Form 8109-B so that your deposit will be credited to the proper account.

How do I complete Form 8109?

Federal Tax Deposit (FTD) Coupon

Mark the "X" in this box only if there is a change to Employer Identification Number (EIN) or Name.

X

See instructions on page 1.

BANK NAME/
DATE STAMP

AMOUNT OF DEPOSIT (Do NOT type, please print.)

| DOLLARS | | | | | | | | | | CENTS | | |
|---------|--|--|--|--|--|--|--|--|--|-------|--|--|
| | | | | | | | | | | | | |

EIN 99-9999999 010212

1 TURNERS PANCAKE SHOP
7967 75TH
ANYWHERE USA 00000

IRS USE
ONLY

Telephone number () **5** _____

3 Darken only one TYPE OF TAX

| | | |
|--------------------------------|---------------------------------|--------------------------------------|
| <input type="checkbox"/> 941 | <input type="checkbox"/> 945 | <input type="checkbox"/> 1st Quarter |
| <input type="checkbox"/> 990-C | <input type="checkbox"/> 1120 | <input type="checkbox"/> 2nd Quarter |
| <input type="checkbox"/> 943 | <input type="checkbox"/> 990-T | <input type="checkbox"/> 3rd Quarter |
| <input type="checkbox"/> 720 | <input type="checkbox"/> 990-PF | <input type="checkbox"/> 4th Quarter |
| <input type="checkbox"/> CT-1 | <input type="checkbox"/> 1042 | |
| <input type="checkbox"/> 940 | | 91 |

FOR BANK USE IN MICR ENCODING

Federal Tax Deposit Coupon
Form 8109 (Rev. 10-96)

- 1** Check your coupon to make sure your name and EIN are correct. If either one is incorrect, mark an "X" in the upper left hand box and make the necessary correction.
- 2** Write in the deposit amount. Do not type. Do not use dollar signs, commas, decimal points or leading zeroes. If the deposit is for whole dollars, be sure to enter 00 in the "cents" boxes.
- 3** To indicate the type of tax, darken the box to the left of the appropriate form. Deposits for different types of taxes and different quarters cannot be combined. Each type of tax needs its own deposit coupon.
- 4** Darken the box indicating the quarter for which your deposit applies. This is especially important to remember if you are making a deposit after the quarter has ended.
- 5** Include your daytime phone number in the space provided.

How do I make electronic federal tax deposits?

Using your phone or personal computer, and the **Electronic Federal Tax Payment System** (EFTPS), you can arrange for your tax deposits to be transferred directly from your existing bank account to the Treasury. This system is an alternative to using the paper-based FTD coupon method for making deposits. Any federal taxes deposited using an FTD coupon can be deposited electronically.

NOTE: The information provided in the EFTPS vignette of this video was intended to provide general information about EFTPS.

Do I need to obtain special equipment in order to use EFTPS?

No, you may use any telephone or your personal computer to input your tax deposit information. If you choose to use your personal computer, you will be provided with free EFTPS software to process the transfer of funds, or pay on-line from our website at: www.eftps.gov.

How does EFTPS actually work?

There are three methods available for making deposits through EFTPS:


1 Contact **EFTPS Direct**. You do this by telephone, using a toll-free phone number, by computer, using the software provided or visiting our on-line website at: www.eftps.gov. This automated system is available 24 hours a day, seven days a week, and up to 30 days before the deposit is due. However, you should contact it no later than 5 p.m. Pacific Time the last business day before your deposit is due. After establishing contact:

- Enter your EIN and a personal identification number (PIN).
- Enter the amount, form number, tax period and the date you want the money withdrawn from your account.

Your funds will be transferred from your account directly to the U.S. Treasury account on the date you specify.

2 Contact **your financial institution** to arrange for the EFTPS deposit. If you use this method, you must first verify that your financial institution offers this service. After contacting them:

- Instruct them to electronically move funds from your account to the U.S. Treasury account.
- Verify deadline for contacting your bank so deposit is transferred on time.

 **Alert** When using either EFTPS method, make sure your account contains sufficient funds to cover your tax transfer.

How do I sign up for EFTPS?

Call 1-800-945-8400 or 1-800-555-4477 to request an enrollment form. You complete the enrollment form and return it to the EFTPS Enrollment Center. The center, in turn, will send you a Confirmation Packet, including a step-by-step Payment Instruction Booklet and the telephone numbers for accessing EFTPS.

Does the EFTPS system have safeguards to prevent unauthorized access?

When you use the direct payment method, you receive a personal identification number (PIN), which must be used in combination with your EIN to gain access to EFTPS. You have complete and exclusive control over your PIN. The IRS does not have access to your PIN.

How do I prove that I have made an electronic deposit?

With EFTPS Direct, you will receive an acknowledgment number when you complete the transaction. The acknowledgment number will verify you have timely initiated your payment. When using EFTPS through your financial institution, it may provide a confirmation number and/or the EFTPS acknowledgment number. In either case, the funds transfer will appear on your bank statement.

Will I be charged a fee for using EFTPS?

The government does not charge a fee for originating direct transactions through EFTPS Direct. Most banks also do not charge a fee for EFTPS Direct. However, if the bank does charge a fee, it's usually no more than the cost of processing a paper check. You should check with your financial institution to learn if it will charge a fee.

What are the advantages of using EFTPS?

- You don't have to write a check or mail a letter.
- You don't have to make a last minute trip to the bank just to make a deposit.
- You can make an arrangement in advance to make a transfer on the date it is due.
- It allows you to use your time more efficiently.

Customer Service telephone numbers for EFTPS

This service is available Monday through Friday, 5:30 a.m. to 5 p.m. Pacific Time.

| | |
|---------|-----------------------------------|
| English | 1-800-945-8400 and 1-800-555-4477 |
| Spanish | 1-800-946-8600 and 1-800-244-4829 |
| TDD | 1-800-945-8900 and 1-800-733-4829 |

Practical Exercise 3

- 1** Compute the amount of tax to be deposited for the month of April using the information below.

| MONTH | WAGES | INCOME TAX WITHHELD | EMPLOYEES' WITHHELD FICA |
|--------------|--------------|--------------------------------|-------------------------------------|
| APRIL | \$10,000 | \$1,500 | \$765.00 |
| MAY | \$9,000 | \$1,400 | \$688.50 |
| JUNE | \$11,000 | \$1,600 | \$841.50 |
| TOTAL | \$30,000 | \$4,500 | \$2,295.00 |

- 2** Complete Form 8109, Federal Tax Deposit Coupon, for the April Form 941 deposit.

NOTE: This same information would be used to make the deposit by EFTPS. You would simply call the toll-free number, and provide your Employer Identification Number and PIN, and the information required on the Form 8109, or transmit the information through your personal computer.



Federal Tax Deposit Penalties

As you previously learned, it is important to make timely federal tax deposits because most of the money belongs to your employees. If you make these deposits late, you will receive a penalty. This penalty is called a “failure to deposit” penalty and is computed by multiplying the amount of tax you have underpaid by a penalty percentage rate based on how many days late you make the deposit.

At a Glance:

Failure to Deposit Penalty Rates for Unpaid Tax:

1-5 days late: 2%

6-15 days late: 5%

16 or more days late: 10%

Taxes still unpaid after the 10th day following the first IRS bill: 15%

| Failure to Deposit Penalty Percentage Rates | | |
|--|------------------------------|--------------------|
| NUMBER OF DAYS LATE | PERCENTAGE RATE UNDERPAYMENT | PENALTY ON \$3,000 |
| 1-5 | 2% | \$60 |
| 6-15 | 5% | \$150 |
| 16 + | 10% | \$300 |
| Taxes unpaid after the 10th day following the 1st IRS bill | 15% | \$450 |

As you read in Chapter 4, you will receive a penalty if you make a deposit elsewhere than with an authorized financial institution. This penalty is called an “FTD avoidance” penalty and is 10% of the underpayment.

In addition to the above deposit penalties, you will also be subject to penalties if you late file your Forms 940 or 941, or don’t pay the amount due on the return:

| Other Penalties | | |
|-----------------------|--|---------|
| | RATE | MAXIMUM |
| Late Filed Tax Return | 5% per month of unpaid tax | 25% |
| Late Paid Tax | ½% per month of unpaid tax, then 1% after Notice of Intent to Levy | 25% |



Reminder: In addition to penalties, you also must pay interest. Interest rates are set quarterly. For example, the interest rate has recently varied between 8-10%. You will continue to pay interest until you pay all the money you owe the government.

As a business person, you regularly have to make decisions regarding the financing of your business, especially during periods when you face a cash flow problem. You may rely on your banker for this financing. However, you may also consider using unpaid tax deposits. To do this, you wouldn't deposit your employees' withholding. This means you would get penalties. Let's assume you need \$10,000 for a year and compare three different ways of obtaining the needed money.

| | |
|--|--|
| OPTION A: Bank financing at 16% | |
| \$10,000 + \$ 1,600 Interest | = \$ 11,600 |
| OPTION B: Use a credit card at 18% | |
| \$10,000 + \$ 1,800 Interest | = \$ 11,800 |
| OPTION C: Use the Trust Fund Taxes | |
| \$ 10,000 | |
| + \$ 1,500 Deposit Penalty 15% | |
| + \$ 1,200 Late Payment Penalty 1% per month | |
| + \$ <u>900</u> Interest | |
| = \$ 13,600 | |
| + \$ <u>2,500</u> Late Filing Penalty | <i>(If the tax return was filed five or more months late, there would be a Failure to File Penalty of 25%)</i> |
| = \$ 16,100 | |

Not only is it wrong to use trust fund monies to finance your operations, it can also be the most expensive alternative.

Practical Exercise 4

Please indicate whether each statement is true or false.

TRUE FALSE

- 1** Employer has \$2,500 in tax liability for the quarter. As long as deposits are made by the return due date, there is no deposit penalty.
- 2** There is no deposit penalty if you mail a check for the undeposited amount due to the IRS by the deposit due date.
- 3** The penalty for late deposits varies depending on how late the deposit is made—the amount increases the later the deposit is made.
- 4** The penalty for late deposits is 10% of the amount of the undeposited tax, no matter when it is paid.
- 5** There are additional penalties on taxes that are not paid or returns not filed by the due date of the return.



You have learned the “ABCs” of FTDs — that is, the basic rules for making federal tax deposits of employment taxes. In a nutshell:

WHO is required to make deposits?

Employers with an employment tax liability of \$2,500 or more in any calendar quarter.

WHAT is required to be deposited?

Employees’ federal income tax and FICA withholding along with the employer’s share of FICA.

WHEN must the deposits be made?

It depends on the employer’s deposit schedule. Generally, new employers and small employers will have a monthly schedule.

WHERE is the deposit made?

- At an authorized financial institution, or
- Mail to: Financial Agent
 Federal Tax Deposit Processing
 P.O. Box 970030
 St. Louis, MO 63197

HOW is the money deposited?

- Manually using a Form 8109 coupon, or
- Electronically by telephone or computer through EFTPS.

Remember that EFTPS is a convenient, time efficient way to deposit taxes.

Form 941 taxes are part of your employee’s wages or salaries, which is being entrusted to you to pay to the Treasury. It is your employee’s income tax, Social Security tax and Medicare, along with your (the employer’s) matching portion of Social Security and Medicare tax. That is why the employees’ portions are called “Trust Fund Taxes.” Form 940 taxes are paid by you, the employer, to provide for unemployment compensation to workers who have lost their jobs.

You have also learned there are costly penalties for not making the required federal tax deposits. Good business practices dictate that paying penalties is not the best use of your valuable financial resources.

Thank you for taking this opportunity to become better acquainted with the federal tax deposit system. Best wishes for success in your business.

For additional information

In addition to your tax advisor, you may obtain IRS assistance through the following:

- **IRS web site:** www.irs.gov
- **Toll free telephone:** 800-829-1040.
- **Face to face:** local IRS office
- **Publications:** such as Publication 15, Circular E, Employer’s Tax Guide.

BANKING DAY – The portion of a financial institution’s business day where the banking transaction date is the same as the calendar date. A banking day does not include Saturdays, Sundays, and state and Federal holidays. In addition, a banking day generally ends at 2:00 PM even though the institution may remain open until a later date.

CIRCULAR E, Employer’s Tax Guide (Publication 15) – IRS publication which provides information to employers regarding their responsibilities for federal taxes. It also contains tables for income tax withholding.

DEPOSIT PERIOD – The period of time during which an employer accumulates tax liability for paying to the Treasury on the next due date. Deposit periods vary depending on which deposit schedule the employer follows (see monthly deposit schedules and semiweekly deposit schedules).

EIN (Employer Identification Number) – A permanent, nine-digit number IRS issues to each business to identify the business’ tax account. A business should have only one EIN and should use it when making tax deposits and filing all required federal tax returns.

EFTPS (Electronic Federal Tax Payment System) – A system that allows for the electronic transfer of funds from taxpayer accounts directly to the Treasury’s general account. This is a convenient, time-saving method for employers to make their required Federal Tax Deposits using a telephone or computer.

FEDERAL TAX DEPOSIT SYSTEM – Method established for transferring taxes from the business to the Treasury. Deposits can be made using paper documents at a bank, or can be made directly from your bank account to the Treasury by phone or personal computer using EFTPS.

FICA (Federal Insurance Contributions Act) -A law that provides for Social Security and Medicare benefits.

FORM 940, Employer’s Annual Federal Unemployment Tax Return – Return reporting federal unemployment tax, due January 31st after the tax year ends.

FORM 941, Employer’s Quarterly Federal Tax Return – Return reporting federal income tax withheld, and employer and employee shares of Social Security and Medicare. It is due the last day of the month following the end of the quarter.

FORM 8109, Federal Tax Deposit Coupon – Used for making deposits of federal taxes to an authorized depository.

FTD – Federal Tax Deposit

FUTA – Federal Unemployment Tax Act

LOOKBACK PERIOD – A 12-month period, covering four quarters, ending June 30 of the prior year. The total tax liability reported on Form 941 during that period is reviewed annually to determine which Deposit Schedule an employer is to follow for the current calendar year.

MONTHLY SCHEDULE DEPOSITS – The Federal Tax Deposit Schedule followed by those employers whose total taxes were \$50,000 or less during their most recent “Lookback Period.” Tax deposits for payrolls paid during one month are due by the 15th day of the next month.

SEMIWEEKLY SCHEDULE DEPOSITS – The Federal Tax Deposit Schedule followed by those employers whose total payroll taxes were more than \$50,000 during their most recent “Lookback Period.” Tax deposit for payroll paid during the deposit period from Wednesday through Friday are due by the following Wednesday. Tax deposits for payroll paid during the deposit period from Saturday through Tuesday are due by the following Friday.

TRUST FUND TAX – The money an employer is required to withhold from an employee’s wages (Federal Income Tax Withheld, Social Security and Medicare taxes) and periodically pay to the Treasury. Federal income tax withheld is then credited against tax due on employees’ individual tax returns. Social Security and Medicare withheld are the employees’ contribution toward retirement and hospital benefits.

Practical Exercise 1, page 4

- 1** The correct answer is E, A and C
- A. Withheld income taxes are taken out of employees' paychecks and held in trust to be turned over to the Treasury. This is only part of the correct answer.
 - B. Employer's portion of Social Security and Medicare is not taken out of employees' paychecks. It is an additional cost of having employees, but is not a trust fund tax.
 - C. Employee's portion of Social Security and Medicare has been withheld from the employee's paycheck, and is held in trust to be turned over to the Treasury. This is only part of the correct answer.
 - D. A and B is incorrect because the employer's portion of Social Security and Medicare is not a trust fund tax.
 - E. A and C is correct because Withheld income taxes and the Employee's portion of Social Security and Medicare are taken out of employee's paycheck and held in trust until they are turned over to the Treasury.
 - F. B and C is not correct because the employer's portion of Social Security and Medicare is not a trust fund tax.
- 2** The correct answer is D, since the trust fund deposits are actually money withheld from the employee's paycheck.

Practical Exercise 2, page 10

| | Quarter | | Amount from Line 11, Form 941 |
|---|------------------------------|---|----------------------------------|
| A | 3RD QUARTER 2000 | + | \$8,000 |
| B | 4TH QUARTER 2000 | + | \$8,500 |
| C | 1ST QUARTER 2001 | + | \$9,000 |
| D | 2ND QUARTER 2001 | + | \$9,090 |
| E | Total Tax in Lookback Period | | |
| | A + B + C + D | = | \$34,590 |

- 1** The Lookback Period for 2002 is the 12-month period from July 1, 2000 through June 30, 2001. Add up the taxes reported on Forms 941 for the Third and Fourth Quarters of 2000 and the First and Second Quarters of 2001.
- 2** The correct answer is C, the Monthly Schedule. Since the total tax in the Lookback Period was less than \$50,000, the Monthly Schedule would be followed. The Quarterly Schedule would only be used if the total tax for the quarter was under \$2,500. The Semi-weekly Schedule would be used if the total tax during the Lookback Period was more than \$50,000.
- 3** The correct answer is C, the Monthly Schedule. Their total tax for the quarter is more than \$2,500, so the tax deposits must be made. If an employer did not have any employees during the Lookback Period, their total tax for that time was -0-. A New Employer follows the Monthly Schedule for deposits unless they meet the \$100,000 rule. (See page 6.)

Practical Exercise 3, page 19

- 1** The correct answer is **\$3,030**. The tax deposit due would be the total of the income tax withheld of \$1,500, the employees' withheld FICA of \$765.00, and the employer's matching share of FICA of \$765.
- 2** Completed Form 8109. The blocks for the Form 941 and the 2nd Quarter would be checked, and the total amount of \$3,030 would be filled in. The name and EIN were preprinted on the form. You should also list your phone number in the proper location.

Federal Tax Deposit (FTD) Coupon

Mark the "X" in this box only if there is a change to Employer Identification Number (EIN) or Name.

X

See instructions on page 1.

BANK NAME/
DATE STAMP

Telephone number _____

AMOUNT OF DEPOSIT (Do NOT type, please print.)

| DOLLARS | CENTS |
|-------------|-------|
| 3 0 3 0 0 0 | 0 0 |

→ EIN 99-9999999 010212

TURNERS PANCAKE SHOP
7957 75TH
ANYWHERE USA 00000

IRS USE ONLY

| Darken only one TYPE OF TAX | | Darken only one TAX PERIOD |
|-------------------------------------|--------------------------|----------------------------|
| 941 | 945 | |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1st Quarter |
| <input type="checkbox"/> | <input type="checkbox"/> | 2nd Quarter |
| <input type="checkbox"/> | <input type="checkbox"/> | 3rd Quarter |
| <input type="checkbox"/> | <input type="checkbox"/> | 4th Quarter |
| <input type="checkbox"/> | <input type="checkbox"/> | |
| <input type="checkbox"/> | <input type="checkbox"/> | |
| <input type="checkbox"/> | <input type="checkbox"/> | |
| <input type="checkbox"/> | <input type="checkbox"/> | |

91

FOR BANK USE IN MICR ENCODING

Federal Tax Deposit Coupon
Form 8109 (Rev. 10-96)

Practical Exercise 4, page 21

- 1 True.** If there is \$2,500 or more in total tax for the quarter, the employer must follow the Monthly or Semiweekly Schedule for deposits.
- 2 False.** You are required to make deposits through the Federal Tax Deposit System. If you do not make deposits by using the system, you will be charged a 10% FTD avoidance penalty.
- 3 True.** There is a four step penalty for late deposits, from 2% to 15%, depending on how late the deposit is made.
- 4 False.** The penalty is 10% if the deposit is 16 or more days late, but has been deposited before 10 days after the employer receives a bill. If the deposit is made earlier, the penalty is smaller. If the deposit is made after 10 days after the employer receives a bill for the unpaid tax, the penalty increases to 15%.
- 5 True.** There are late filing and late payment penalties in addition to late deposit penalties that can be charged if returns are not timely.



Department of the Treasury
Internal Revenue Service
Publication 3151-A (Rev. 8-2001)
Catalog Number 26437R