

# Payroll Tips

[When an Employee Should Update Form W-4](#)  
[Manage Your Payroll Tax Obligations](#)

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## When an Employee Should Update Form W-4

Employees are required or are permitted to file an updated Form W-4 (Employee's Withholding Certificate) in certain circumstances, as discussed more fully in the following paragraphs.

Note: The 2020 Form W-4 has been redesigned based on changes made by the Tax Cuts and Jobs Act. To increase the accuracy of federal income tax withholding (FITW), employers should encourage their employees to submit a 2020 Form W-4. However, the employer cannot require employees to submit an updated Form W-4.

### Changes Affecting the Current Year

If an employee's tax situation has changed such that FITW should be increased (e.g., the employee has fewer deductions or tax credits) from the withholding provided for on the current Form W-4, a new Form W-4 generally must be provided to the employer within 10 days or the employee risks a \$500 penalty.

### Example Occurrence of an event increasing withholding

John's current Form W-4 indicates that his status is married filing jointly. John divorces during the year. He should provide a new Form W-4 indicating single filing status. (Presumably, the new form must be filed within 10 days of the date the divorce becomes final.) John's new Form W-4 will take effect no later than the beginning of the first payroll period ending on or after the 30th day after the day it is furnished to his employer.

Examples of reasons an employee may need to file a new Form W-4 to increase withholding include the following:

1. Divorce or legal separation.
2. Spouse begins working.
3. The employee no longer expects to be able to claim a child tax credit for a dependent.

4. The employee anticipates the receipt of more income than originally estimated or anticipates fewer deductions or credits than originally estimated.
5. The employee has filed for Chapter 11 bankruptcy and may not be entitled to the same deductions or credits claimed on a Form W-4 previously provided to the employer, such as for certain deductions or credits that now belong to the bankruptcy estate; or the bankruptcy estate may be taxed at a higher rate.
6. The employee expects to owe additional 0.9% Medicare tax and/or the 3.8% net investment income tax when filing an income tax return.

Observation: An employee does not have to adjust withholding for the remainder of the employee's tax year if a spouse or dependent dies during the year.

Conversely, the employee may file a new Form W-4 to provide information that will decrease withholding at any time due to certain changes, including the following:

1. A spouse stops working.
2. A child is born to, or adopted by, the employee.
3. The employee anticipates the receipt of less income or more deductions or credits than originally estimated.

Employers must withhold based on the updated Form W-4 as of the beginning of the first payroll period ending (or the first payment of wages made without regard to a payroll period) on or after the 30th day after the employee furnishes the updated form. However, the employer has the option to begin withholding based on the new form with the first date that wages are paid after the employee furnishes the updated form (if before the statutorily mandated effective date).

## **Changes Affecting the Following Year**

A separate set of rules applies if the employee reasonably expects that withholding should change for the following year due to a change in circumstances. If the expected change results in an increase in withholding (e.g., a child tax credit will not apply in the next year), a new Form W-4 must be filed on or before December 1 (or within 10 days if the expected change occurs during December), or the employee risks a \$500 penalty. Conversely, if the expected change results in a decrease in withholding, a new Form W-4 may be filed on or before December 1 (or within 10 days if the expected change occurs during December).

Changes in status that result in an increase in withholding for the succeeding year include the following:

1. A spouse or dependent dies.
2. The employee does not expect in the coming year to be able to claim a child tax credit for a dependent on his or her tax return for whom the employee is claiming on his or her current Form W-4.

Where the updated Form W-4 affects the following calendar year, the employer is not supposed to withhold based on that form during the year in which it is furnished.

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# Manage Your Payroll Tax Obligations

Any company with employees will have payroll tax obligations. Payroll personnel will typically be responsible for managing payroll tax liabilities and for filing the corresponding forms. It is important to follow your company's payroll tax schedule and be timely with payroll tax payments to avoid penalties to your company.

Here, we will discuss key payroll tax obligations and deadlines to help you make sure nothing is forgotten.

## Federal Income Taxes

Employers are required to withhold federal income tax from employees' wages and deposit them to the IRS. The amount to withhold is determined by using the employee's completed Form W-4 and withholding tables in [Publication 15, \(Circular E\)](#).

## Social Security and Medicare Taxes (FICA)

Social Security and Medicare taxes must also be withheld from employees' wages. The employer must then match the amounts withheld and deposit them. If you are self-employed, you are required to cover the employer and employee amounts, which can be calculated using [Schedule SE](#). Your business will then be able to deduct the employee amount from its gross income.

The current employee tax rate for Social Security is 6.2% and the wage limit is \$137,700 for 2020. The wage limit will typically increase each year in relation to inflation. The current employee tax rate for Medicare is 1.45% with no wage limit.

In addition to these taxes, there is an additional 0.9% Medicare tax that employers must withhold for any employee wage over the threshold (\$250,000 for married filing joint, \$125,000 for married filing separate, and \$200,000 for other filers). This amount is withheld for any pay period that the threshold is exceeded until the end of the year. Employers are not responsible to match this amount.

## Federal Unemployment Tax (FUTA)

FUTA tax must be reported and paid by all employers separately from federal income

taxes and FICA taxes. This is an employer-only responsibility.

The FUTA tax rate in 2020 is 6% and is applied to the first \$7,000 of wages paid to each employee.

## State Payroll Taxes

State income tax withholding is required for the states that impose a tax. Some states will also require payroll taxes to contribute to state unemployment tax funds, disability funds, or state workers' compensations funds.

## Payroll Tax Form Due Dates

- Form W-2 and Form W-3: These forms are used to report wages, tips, and other employee compensation. Copies are sent to the SSA and the employee. Due January 31.
- Form 1099-MISC: This form is filed for each non-employee person paid \$600 or more for services performed, such as independent contractors. Copies are sent to the IRS and the non-employee recipients.
- Form 941: This form reports income taxes and both the employer and employee portions of Social Security tax and Medicare tax withheld from an employee's paycheck. Due April 30, July 31, October 31, and January 31.
- Form 940: This form is used to report annual FUTA tax. Due January 31.

## Depositing Employment Taxes

Before the beginning of each year, you must determine which deposit schedule you are required to use; monthly or semi-weekly.

You are a semiweekly depositor if you:

- Reported *more* than \$50,000 of employment taxes in the lookback period, or
- Accumulated a tax liability of \$100,000 or more on any given day in the current or prior calendar year.

You are a monthly depositor if you:

- Reported *less* than \$50,000 of employment taxes in the lookback period.

FUTA deposits are required to be made quarterly, regardless of your deposit schedule.