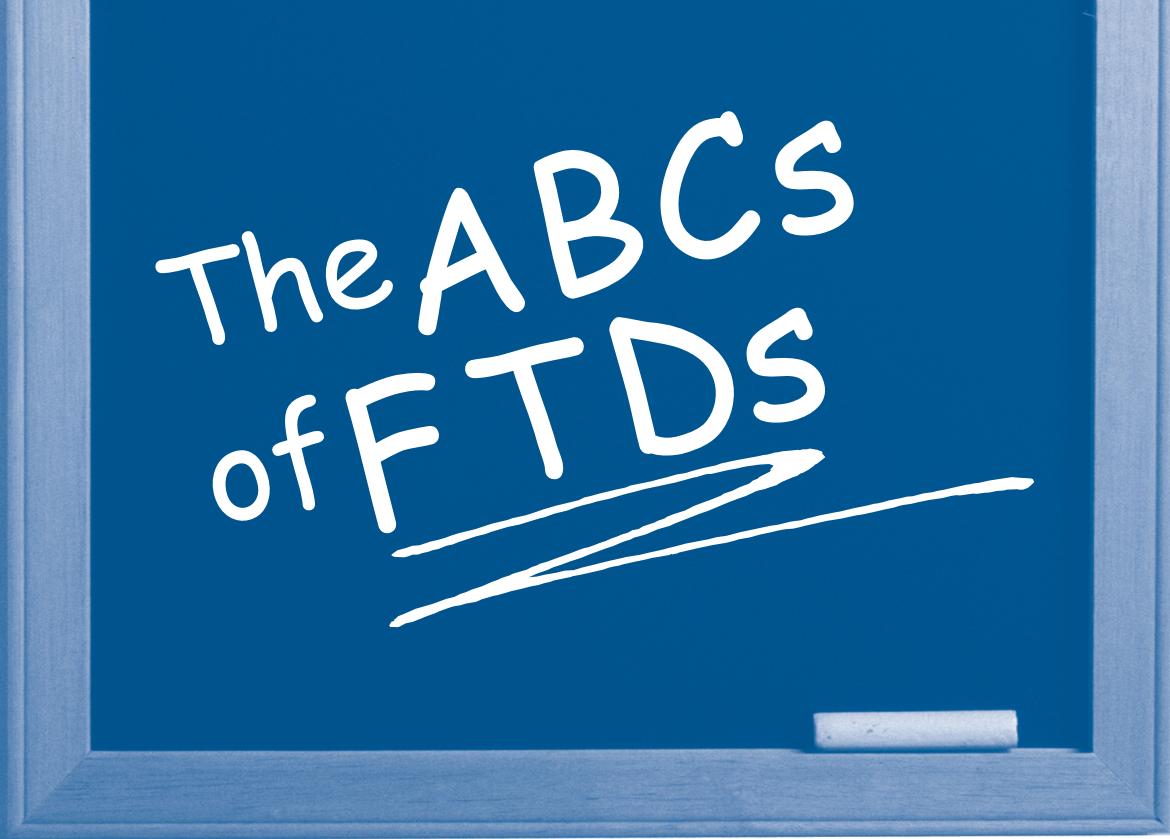




Resource Guide for

Understanding

FEDERAL TAX DEPOSITS

A graphic of a chalkboard with a blue background and a white border. Inside the board, the words "The ABCS" are written in a large, white, sans-serif font. Below that, "of FTDS" is written in a slightly smaller white font. A piece of white chalk lies across the bottom right corner of the board.

The ABCS
of FTDS

THE ABCS OF FTDS

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.

Your employees are one of your business' most valuable resources. In paying their salary, you have the responsibility of withholding taxes from their paychecks. This withholding includes your employees' income tax and their share of FICA (social security and Medicare tax). You must periodically send this money to the United States 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 be charged 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 be charged additional 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!



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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 Forms 941, 944, and 940,
- › Determine your deposit schedules and deposit due dates for Forms 941, 944 and 940,
- › Use the Electronic Federal Tax Payment System (EFTPS), and
- › 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, 944 and 940. Then, we'll outline the methods used to make tax deposits electronically, through your phone or the Internet. Finally, we'll explain the financial consequences of not making correct, timely deposits.

Use this Resource Guide 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, employee's share of FICA (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.

FTD Penalty on \$3,000 Deposit



TRUST FUND TAXES ARE IMPORTANT

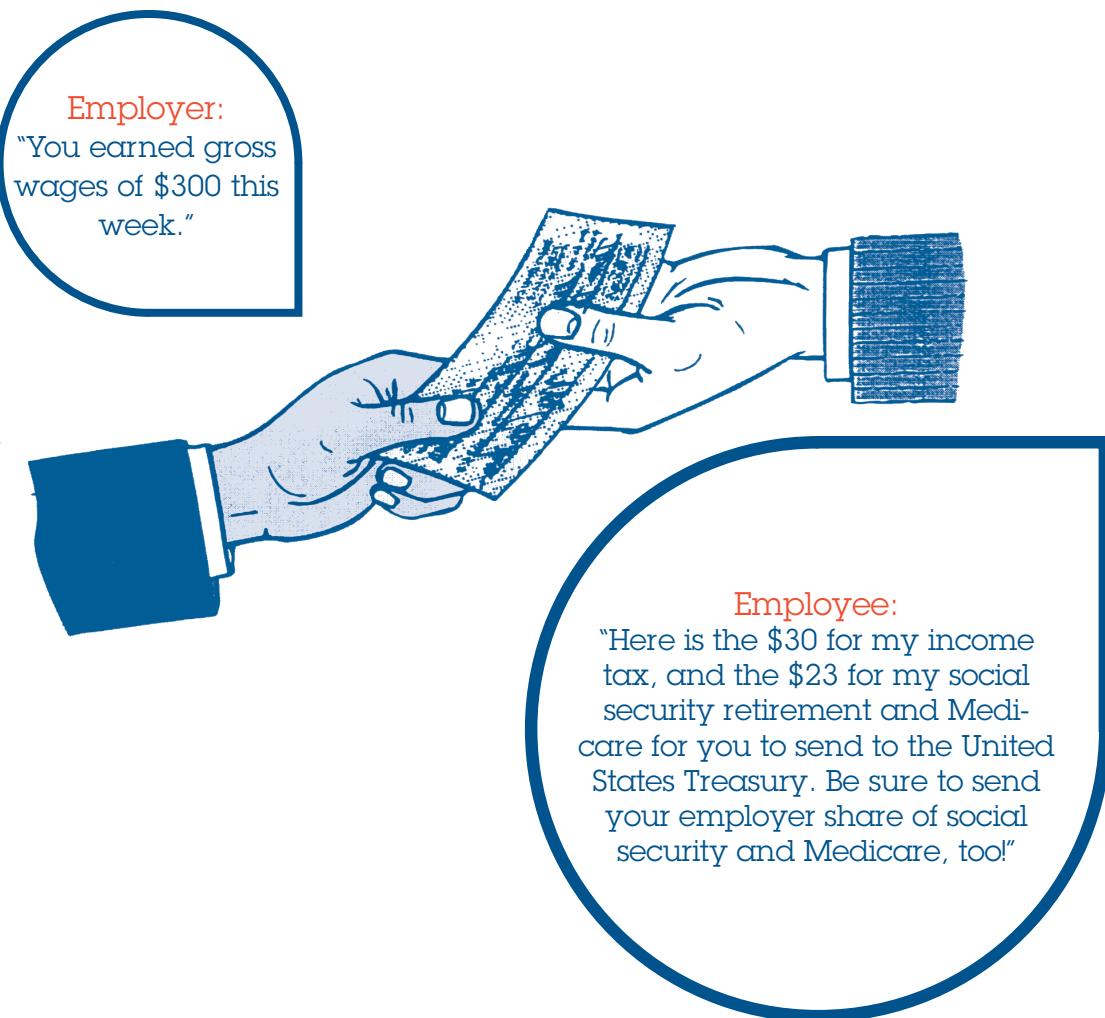
What it Means

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 United States 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 tax) you withhold from your employees' paychecks are the part of their wages you pay to the United States Treasury instead of to your employees. The portion of their wages you hold for transmitting to the United States Treasury is called "Trust Fund" taxes. Through this withholding, your employees pay their contributions toward their social security and Medicare benefits and the income taxes reported on their own tax returns. Your employees' trust fund taxes, along with the employer's share of FICA tax, are paid to the United States Treasury through the Electronic Federal Tax Payment System (EFTPS).

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 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.

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



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 tax
- C. Employee's portion of social security and Medicare tax
- D. A and B
- E. A and C
- F. B and C

2 The trust fund portion of tax deposits belong to:

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

FEDERAL TAX DEPOSIT RULES FOR FORM 941 AND 944 TAXES

What it Means

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

Form 944 (Employer's ANNUAL Federal Tax Return): Return reporting federal income tax withheld, and employer and employee shares of FICA taxes. The return is due January 31 of the following year.

FICA: Federal Insurance Contributions Act, which provides for social security and Medicare benefits.

Now that you understand federal tax deposits are important, you are ready to learn the rules for making the deposits. As of January 1, 2011, all deposits must be made electronically.

Who Must Make Form 941 Deposits?

Deposits are required if you file Form 941 with \$2,500 or more in taxes per quarter. Starting in 2010, deposits are not required if the tax for the current quarter is \$2,500 or more and the prior quarter taxes are less than \$2,500, unless a tax liability within a deposit period reaches or exceeds \$100,000. See Exceptions to Deposit Schedules on page ten.

Who Must Make Form 944 Deposits?

Deposits for Form 944 filers are not required unless the tax liability for the year reaches \$2,500 or more. Please see Instructions for Form 944.

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) tax — the employer's share

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.

EMPLOYEE	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
	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

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

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 tax.

What it Means

Lookback Period: If you have filed only Form 941, the lookback period is a 12-month period that ends June 30 of the prior year. If you filed Form 944 in either of the two previous years, or you are filing Form 944 in the current year, the lookback period is the second prior calendar 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

Adjustments and the lookback rule.
Determine your liability for the lookback period based on the tax liability as reported on your Forms 941 and 944. Adjustments made on Form 941-X, Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund, and Form 944-X, Adjusted

Employer's ANNUAL Federal Tax Return or Claim for Refund, do not affect the amount of tax liability for previous periods for purposes of the lookback rule.

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 on Form 941 for the current quarter or the preceding quarter are less than \$2,500, and you did not incur a \$100,000 next-day deposit obligation in the current quarter, you may pay the taxes with the return or deposit by the return due date. See Exceptions to Deposit Schedule on page 10.
- › If your total taxes on Form 941 are \$2,500 or more in both the prior quarter and the current quarter, you'll need to determine which deposit schedule to follow.

When Should You Make Form 944 Tax Deposits?

Form 944 is for the smallest employers whose tax liability is below the minimum for making deposits. Deposits are not required if the annual tax is less than \$2,500. See Instructions for Form 944 instructions if the annual liability exceeds \$2,500.

What's Your Deposit Schedule?

To determine your deposit schedule, you need to review the amounts of tax reported on your earlier Forms 941 and 944. If you are filing Form 944, or if you filed Form 944 during either of the previous two years, your "lookback period" for 2017 is the calendar year 2015. If you filed only Forms 941, you can determine your deposit schedule using the "Lookback Period" table below.

Lookback Period for 2018 Deposits	
JULY 1, 2016 THROUGH JUNE 30, 2017	
2016	2017
THIRD & FOURTH QUARTERS	FIRST & SECOND QUARTERS
7/1/16 THROUGH 9/30/16	1/1/17 THROUGH 3/31/17
10/1/16 THROUGH 12/31/16	4/1/17 THROUGH 6/30/17

 **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 explained on page 10.

After you determine your lookback period, you need to total the taxes reported on Forms 941 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**.

941 for 2016: Employer's QUARTERLY Federal Tax Return
 Form 941 (Rev. January 2016) Department of the Treasury – Internal Revenue Service
 OMB No. 1545-0029

Employer identification number (EIN) -

Name (not your trade name)

Trade name (if any)

Address
 Number Street Suite or room number
 City State ZIP code

Report for this Quarter of 2016
 (Check one.)
 1: January, February, March
 2: April, May, June
 3: July, August, September
 4: October, November, December
 Instructions and prior year forms are available at www.irs.gov/form941.

8 Current quarter's adjustment for sick pay	8 <input type="text"/>
9 Current quarter's adjustments for tips and group-term life insurance	9 <input type="text"/>
10 Total taxes after adjustments. Combine lines 6 through 9	10 <input type="text"/> \$10,000 <input type="text"/>
11 Total deposits for this quarter, including overpayment applied from a prior quarter and overpayments applied from Form 941-X, 941-X (PR), 944-X, or 944-X (SP) filed in the current quarter	11 <input type="text"/>
12 Balance due. If line 10 is more than line 11, enter the difference and see instructions	12 <input type="text"/>
13 Overpayment. If line 11 is more than line 10, enter the difference <input type="text"/> * Check one: <input type="checkbox"/> Apply to next return. <input type="checkbox"/> Send a refund.	

► You MUST complete both pages of Form 941 and SIGN it.

A

Let's go over an example to help determine your deposit schedule for 2018. Since the lookback period is July 1, 2016, to June 30, 2017, we need to add the taxes from Forms 941 for the third and fourth quarters of 2016 and the first and second quarters of 2017.

941 for 2016: Employer's QUARTERLY Federal Tax Return
 Form 941 (Rev. January 2016) Department of the Treasury – Internal Revenue Service
 OMB No. 1545-0029

Employer identification number (EIN) -

Name (not your trade name)

Trade name (if any)

Address
 Number Street Suite or room number
 City State ZIP code

Report for this Quarter of 2016
 (Check one.)
 1: January, February, March
 2: April, May, June
 3: July, August, September
 4: October, November, December
 Instructions and prior year forms are available at www.irs.gov/form941.

8 Current quarter's adjustment for sick pay	8 <input type="text"/>
9 Current quarter's adjustments for tips and group-term life insurance	9 <input type="text"/>
10 Total taxes after adjustments. Combine lines 6 through 9	10 <input type="text"/> \$9,000 <input type="text"/>
11 Total deposits for this quarter, including overpayment applied from a prior quarter and overpayments applied from Form 941-X, 941-X (PR), 944-X, or 944-X (SP) filed in the current quarter	11 <input type="text"/>
12 Balance due. If line 10 is more than line 11, enter the difference and see instructions	12 <input type="text"/>
13 Overpayment. If line 11 is more than line 10, enter the difference <input type="text"/> * Check one: <input type="checkbox"/> Apply to next return. <input type="checkbox"/> Send a refund.	

► You MUST complete both pages of Form 941 and SIGN it.

B

941 for 2017: Employer's QUARTERLY Federal Tax Return
 Form 941 (Rev. January 2017) Department of the Treasury – Internal Revenue Service
 OMB No. 1545-0029

Employer identification number (EIN) -

Name (not your trade name)

Trade name (if any)

Address
 Number Street Suite or room number
 City State ZIP code

Report for this Quarter of 2017
 (Check one.)
 1: January, February, March
 2: April, May, June
 3: July, August, September
 4: October, November, December
 Instructions and prior year forms are available at www.irs.gov/form941.

9 Current quarter's adjustments for tips and group-term life insurance	9 <input type="text"/>
10 Total taxes after adjustments. Combine lines 6 through 9	10 <input type="text"/> \$5,000 <input type="text"/>
11 Qualified small business payroll tax credit for increasing research activities. Attach Form 8974	11 <input type="text"/>
12 Total taxes after adjustments and credits. Subtract line 11 from line 10	12 <input type="text"/>
13 Total deposits for this quarter, including overpayment applied from a prior quarter and overpayments applied from Form 941-X, 941-X (PR), 944-X, or 944-X (SP) filed in the current quarter	13 <input type="text"/>
14 Balance due. If line 12 is more than line 13, enter the difference and see instructions	14 <input type="text"/>
15 Overpayment. If line 13 is more than line 12, enter the difference <input type="text"/> * Check one: <input type="checkbox"/> Apply to next return. <input type="checkbox"/> Send a refund.	

► You MUST complete both pages of Form 941 and SIGN it.

C

941 for 2017: Employer's QUARTERLY Federal Tax Return
 Form 941 (Rev. January 2017) Department of the Treasury – Internal Revenue Service
 OMB No. 1545-0029

Employer identification number (EIN) -

Name (not your trade name)

Trade name (if any)

Address
 Number Street Suite or room number
 City State ZIP code

Report for this Quarter of 2017
 (Check one.)
 1: January, February, March
 2: April, May, June
 3: July, August, September
 4: October, November, December
 Instructions and prior year forms are available at www.irs.gov/form941.

9 Current quarter's adjustments for tips and group-term life insurance	9 <input type="text"/>
10 Total taxes after adjustments. Combine lines 6 through 9	10 <input type="text"/> \$11,000 <input type="text"/>
11 Qualified small business payroll tax credit for increasing research activities. Attach Form 8974	11 <input type="text"/>
12 Total taxes after adjustments and credits. Subtract line 11 from line 10	12 <input type="text"/>
13 Total deposits for this quarter, including overpayment applied from a prior quarter and overpayments applied from Form 941-X, 941-X (PR), 944-X, or 944-X (SP) filed in the current quarter	13 <input type="text"/>
14 Balance due. If line 12 is more than line 13, enter the difference and see instructions	14 <input type="text"/>
15 Overpayment. If line 13 is more than line 12, enter the difference <input type="text"/> * Check one: <input type="checkbox"/> Apply to next return. <input type="checkbox"/> Send a refund.	

► You MUST complete both pages of Form 941 and SIGN it.

D

Tax from Line 10, Form 941	
Quarter	
A THIRD 2016	\$ 10,000
B FOURTH 2016	+ 9,000
C FIRST 2017	+ 5,000
D SECOND 2017	+ 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 2018.

Summary of Steps to Determine Your Deposit Schedule

1. Identify lookback period.
2. Add the total taxes (line 10 of Form 941) you reported during the lookback period.
3. Determine your deposit schedule:

If the total 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

 **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.

What it means

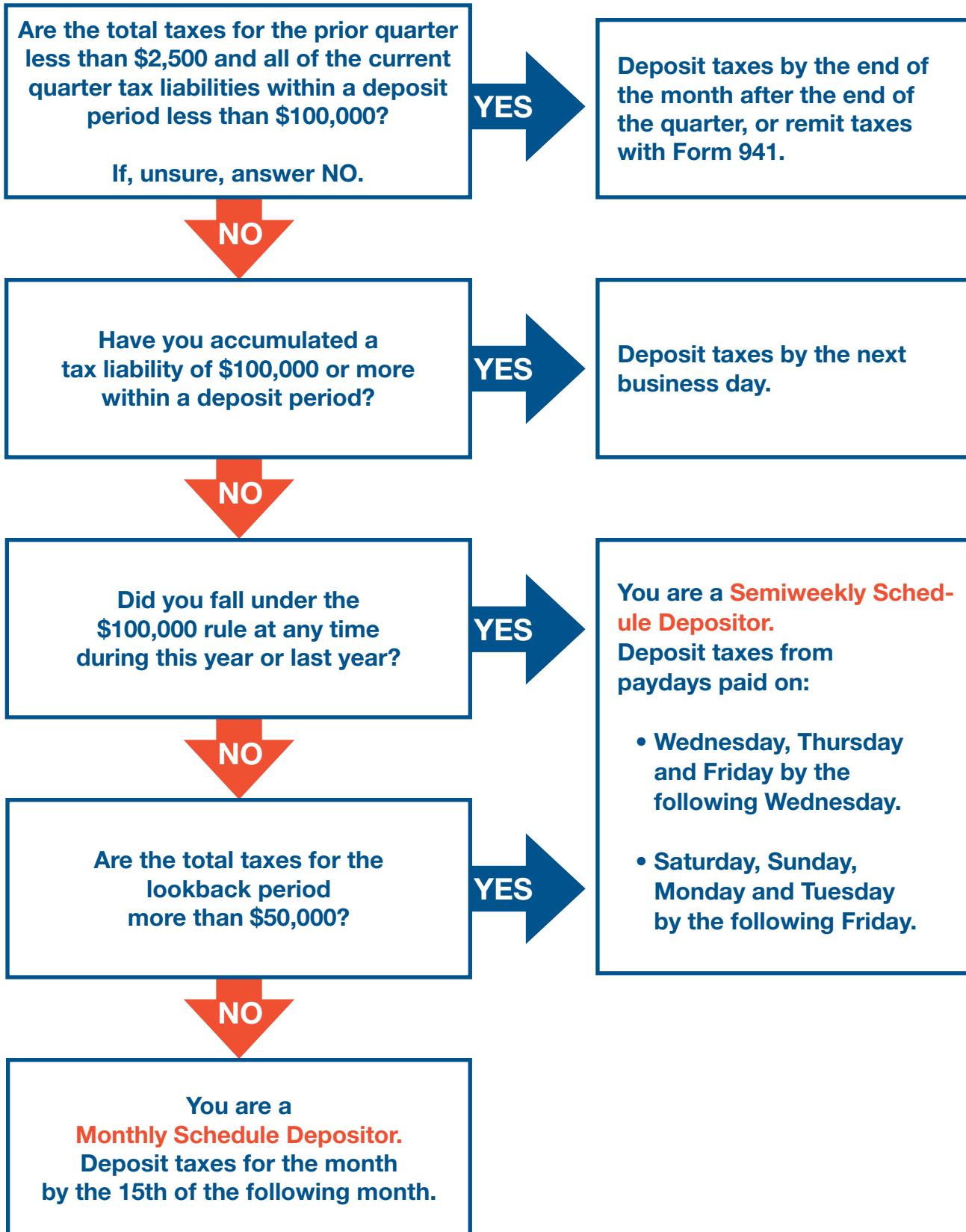
Deposit Period: The period of time during which an employer accumulates tax liability for paying to the United States Treasury on the next due date. Deposit periods vary depending on which deposit schedule the employer must follow.

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 business day. See the definition of "business days" below. Note: This applies even when your prior quarter tax is less than \$2,500.
 - » 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. Business Days
 - » If your deposit is due on a non-business day, make it by the close of the next business day.
 - » Business days include every calendar day other than Saturdays, Sundays, or legal holidays. The term "legal holiday" means any District of Columbia legal holiday.

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 Two

- 1 To determine when deposits are due for 2017, compute the tax liability in the lookback period using the information from the following list of Form 941 and the chart below.

Form 941 Quarter	Tax
FIRST 2015	\$9,200
SECOND 2015	\$8,800
THIRD 2015	\$8,000
FOURTH 2015	\$8,500
FIRST 2016	\$9,000
SECOND 2016	\$9,090
THIRD 2016	\$9,100
FOURTH 2016	\$9,300

	Quarter	Total taxes from Form 941
A		+
B		+
C		+
D		+
E	Total	=

- 2 Based on your answer to Question 1 , which deposit schedule would you follow in making your FTDs?

A. Semiweekly

B. 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. Semiweekly

B. 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.

JULY						
S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

AUGUST						
S	M	T	W	T	F	S
						1
5	6	7	8	9	10	11
.....	12	13	14	15	16	17
19	20	21	22	23	24	25
26	27	28	29	30	31	

[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.

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 5th 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.

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.



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 United States 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 taxes reported on Forms 941 or 944, employers are also responsible for Federal Unemployment Tax Act (FUTA) taxes which are reported on Form 940. Only the employer pays FUTA tax—it is not deducted from employees' wages and is not a trust fund tax.

Form 940 for 2016: Employer's Annual Federal Unemployment (FUTA) Tax Return
 Department of the Treasury — Internal Revenue Service

850113
OMB No. 1545-0028

Employer identification number (EIN)		
Name (not your trade name)		
Trade name (if any)		
Address		
Number	Street	Suite or room number
City	State	ZIP code
Foreign country name	Foreign province/county	Foreign postal code

Type of Return
(Check all that apply.)

a. Amended
 b. Successor employer
 c. No payments to employees in 2016
 d. Final: Business closed or stopped paying wages

Instructions and prior-year forms are available at www.irs.gov/form940.

Read the separate instructions before you complete this form. Please type or print within the boxes.

Part 1: Tell us about your return. If any line does NOT apply, leave it blank. See instructions before completing Part 1.

1a If you had to pay state unemployment tax in one state only, enter the state abbreviation 1a
 1b If you had to pay state unemployment tax in more than one state, you are a multi-state employer
 2 If you paid wages in a state that is subject to CREDIT REDUCTION
Part 2: Determine your FUTA tax before adjustments. If any line does NOT apply, leave it blank.

3 Total payments to all employees 3

What it means

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

Who Must Make Deposits?

An employer with more than \$500 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. As of January 1, 2011, all deposits must be made electronically.

How is the Amount of Deposit Determined?

The tax applies only to the first \$7,000 paid to each employee each year. Generally, for deposit purposes you will figure FUTA tax liability quarterly by multiplying taxable wages by .006 (.6%). This may differ if any wages subject to federal unemployment tax are exempt from state unemployment tax or if the state hasn't repaid loans from the federal government to pay unemployment benefits. Publication 15 (Circular E), Employer's Tax Guide, 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 .006)
Joe	\$6,000	\$6,000	\$6,000	\$36
Jane	\$8,000	\$8,000	\$7,000	\$42
John	\$5,000	\$5,000	\$5,000	\$30
TOTAL	\$19,000	\$19,000	\$18,000	\$108

The \$108 undeposited tax is \$500 or less, and can be held over to the next quarter.

When are Deposits Made?

Your deposit schedule depends on the amount of your tax liability at the end of a quarter.

- › You are required to make quarterly deposits when undeposited taxes reach more than \$500. The deposit is due the last day of the month following the end of the quarter.
- › In the example above, the \$108 undeposited tax is \$500 or less, and can be held over to the next quarter. If the annual FUTA tax is \$500 or less, it can be paid with the Form 940 or deposited by the return due date.

WHERE AND HOW TO MAKE FEDERAL TAX DEPOSITS

How are Deposits Made?

Deposits are made through the Electronic Federal Tax Payment System (EFTPS). The taxpayer is guided through the payment steps. You may make payments through the Internet at www.eftps.gov or by calling 1-800-555-4477.

How do I Make Electronic Federal Tax Deposits?

Use your phone or the Internet to access 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 United States Treasury. EFTPS is a service provided free by the United States Treasury, and uses the highest security available. Any federal tax can be deposited electronically through EFTPS.

Do I Need to Obtain Special Equipment in Order to Use EFTPS?

No, you may use any telephone, or your personal computer with Internet access to input your tax deposit information. You can pay online at our website: www.eftps.gov.

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 does EFTPS Actually Work?

You make contact with EFTPS by telephone, using the toll-free phone number 1-800-555-3453, or by visiting the EFTPS website, www.eftps.gov. This automated system is available 24 hours a day, seven days a week. You should initiate your payment no later than 8:00 p.m. Eastern Time the day before your deposit is due. After establishing contact:

- › Enter your EIN and a personal identification number (PIN) and Internet password.
- › 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 United States Treasury account on the date you specify, for the amount you specify. No one has unauthorized access to your account information.

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

How do I Sign Up for EFTPS?

Enroll online at www.eftps.gov, or call 1-800-555-4477 to request an enrollment form. After you complete the enrollment form, EFTPS 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 EFTPS, you receive a personal identification number (PIN), that 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. And if you make your payments online, you will also use an Internet Password, as an additional safeguard when using the Internet.

How do I Prove That I Have Made an Electronic Deposit?

With EFTPS, you will receive an immediate acknowledgment number when you complete the transaction. The acknowledgment number will verify you have timely initiated your payment. In addition, 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. Most banks do not charge a fee for processing EFTPS payments. 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.

Can I Schedule Payments in Advance?

Yes. You can go online or call to schedule a tax payment up to 120 days in advance of the due date. On the date you indicate, the funds will be transferred to make your payment per your instructions.

Can I Use EFTPS for Personal Tax Payments?

Yes. EFTPS is available to all taxpayers. You would enroll separately as an individual and you could make your personal tax payments through EFTPS.

Do I have Access to My Payment History?

Yes. With EFTPS, you have access to the last 16 months of your payment history online or by phone. The history feature shows when payments were made, the amounts, the taxes paid, and the acknowledgement numbers for each payment.

What are the Advantages of Using EFTPS?

- You don't have to write a check or mail a letter.
- You can make an arrangement in advance to make a transfer on the day before it is due.
- It allows you to use your time more efficiently.

Customer Service Telephone Numbers for EFTPS

This service is available 24 hours a day, 7 days a week:

English 1-800-555-4477

Spanish 1-800-244-4829

TDD 1-800-733-4829 8 a.m. to 8 p.m. ET Monday through Friday

Practical Exercise 3

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

MONTH	WAGES	INCOME TAX WITHHELD	EMPLOYEES' FICA TAX WITHHELD
APRIL 2017	\$10,000	\$1,500	\$765.00
MAY 2017	\$9,000	\$1,400	\$688.50
JUNE 2017	\$11,000	\$1,600	\$841.50
TOTAL	\$30,000	\$4,500	\$2,295.00

This information would be used to make the deposit by EFTPS. You would simply go online or call the toll-free number, and provide your Employer Identification Number and PIN, and the tax form and tax period.

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%
- More than 10 days after 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
More than 10 days after first IRS bill	15%	\$450

In addition to the above deposit penalties, you will also be subject to penalties if you file your Forms 940, 941, or 944 late, or don't pay the amount due on the return:

Other Penalties

	RATE	MAXIMUM
Failure To File Penalty	5% per month of unpaid tax on the due date, reduced by the amount of failure to pay penalty for the same month	25%
Failure To Pay Penalty	1/2 % per month of unpaid tax, then 1% per month 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 3–6%. You will continue to pay interest until you pay all the money you owe the government.

A ten per cent avoidance penalty is assessed if you do not deposit as required. The penalty is charged if you send a payment to the IRS when you are required to deposit. The avoidance penalty is assessed at the same time as the failure to deposit penalty, not in addition to the failure to deposit penalty.

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 trust fund taxes withheld from your employees. 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 10%

$$\$10,000 + \$1,000 \text{ Interest} = \$11,000$$

OPTION B: Use a credit card at 18%

$$\$10,000 + \$1,800 \text{ Interest} = \$11,800$$

OPTION C: Use the Trust Fund Taxes

\$10,000

+\$1,500 Deposit Penalty 15%

+\$1,200 Failure to Pay Penalty 1% per month

+\$500 Interest

= \$13,200

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.

T F



- 1 Employer has \$2,400 in tax liability for the quarter. As long as deposits are made by the return due date, there is no deposit penalty.



- 2 The penalty for late deposits varies depending on how late the deposit is made—the amount increases the later the deposit is made.



- 3 The penalty for late deposits is 10% of the amount of the undeposited tax, no matter when it is paid.



- 4 There are additional penalties on taxes that are not paid or returns not filed by the due date of the return.



- 5 Employer has \$2,000 in tax liability for the second quarter. Employer has \$52,000 liability for the third quarter. There may be a deposit penalty if a payment is sent with a timely filed third quarter tax return.

SUMMARY

You have learned the "ABCs" of FTDs — 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 and \$2,500 or more in the prior quarter, or a tax liability of less than \$2,500 in the prior quarter and a \$100,000 next-day deposit obligation in the current quarter.

WHAT is Required to be Deposited?

Employees' federal income tax withholding and share of FICA tax, along with the employer's share of FICA tax. Employers may also be required to deposit FUTA tax.

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. Under the monthly rule, each month's taxes are required to be deposited on or before the 15th day of the following month.

Under the semiweekly rule, the deposits are due based on a schedule which divides the calendar week into two (semiweekly) sections.

- › The deposit for a pay date of Wednesday, Thursday or Friday must be made on or before the following Wednesday.
- › The deposit for a pay date of Saturday, Sunday, Monday or Tuesday must be made on or before the following Friday.

HOW is the Money Deposited?

Electronically by telephone or Internet through EFTPS. Remember that EFTPS is a free, convenient, time efficient way to deposit taxes.

Taxes reported on Forms 941 and 944 are part of your employee's wages or salaries, which are being entrusted to you to pay to the United States Treasury. It is your employees' income tax, FICA (social security and Medicare) tax (or "Trust Fund Taxes"), along with the portion of FICA taxes paid by you as the employer. 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 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:

- › EFTPS website: www.eftps.gov
- › EFTPS Customer Service: 800-555-4477
- › IRS web site: www.irs.gov
- › Toll free telephone: 800-829-4933
- › Schedule appointment at local IRS office by calling toll free 844-545-5640
- › Publications: Publication 15 (Circular E), Employer's Tax Guide.

GLOSSARY

BUSINESS DAY – A business day includes all calendar days except Saturdays, Sundays, and legal holidays in the District of Columbia.

DEPOSIT PERIOD – The period of time during which an employer accumulates tax liability for paying to the United States 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 free system provided by the United States Treasury that allows for the electronic transfer of funds from taxpayer accounts directly to the United States Treasury's general account. This is a convenient, time-saving method for employers to make their required Federal Tax Deposits using a telephone or Internet.

FEDERAL TAX DEPOSIT SYSTEM – Method established for transferring taxes from the business to the United States Treasury. Deposits can be made directly from your bank account to the United States Treasury by phone or Internet using EFTPS.

FICA (Federal Insurance Contributions Act) – A law that provides for social security and Medicare taxes.

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 944, Employer's ANNUAL Federal Tax Return – Annual return reporting federal income tax withheld, and employer and employee shares of social securi-

ty and Medicare tax. Form 944 is used only by small employers who are notified by IRS to file Form 944. Taxpayers may request to change to Form 941 or to Form 944 between January 1 and April 1.

FTD – Federal Tax Deposit

FUTA – Federal Unemployment Tax Act

LOOKBACK PERIOD – If you have filed only Form 941, the lookback is a 12-month period, covering four quarters, ending June 30 of the prior year. If you filed Form 944 in either of the two previous years, or you are filing Form 944 in the current year, the lookback period is the second prior calendar year. The total tax liability reported 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.

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

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 deposits 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 (withheld federal income tax, social security and Medicare taxes) and periodically pay to the United States Treasury. Federal income tax withheld is then credited against tax due on employees' individual tax returns. Social security and Medicare tax withheld are the employees' contribution toward old-age, survivors, disability, and hospital insurance benefits.

ANSWER KEY FOR PRACTICAL EXERCISES

Practical Exercise 1, page 6

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 United States Treasury. This is only part of the correct answer.
 - B. Employer's portion of FICA (social security and Medicare) tax 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 FICA tax 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 are incorrect because the employer's portion of FICA tax is not a trust fund tax.
 - E. A and C are correct because withheld income taxes and the employee's portion of FICA tax are taken out of employee's paychecks and held in trust until they are turned over to the United States Treasury.
 - F. B and C are not correct because the employer's portion of FICA tax 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 12

Quarter	Total Taxes from Form 941
A 3RD QUARTER 2015	+ \$8,000
B 4TH QUARTER 2015	+ \$8,500
C 1ST QUARTER 2016	+ \$9,000
D 2ND QUARTER 2016	+ \$9,090
E Total Tax in Lookback Period	
	A + B + C + D = \$34,590

1. The lookback period for 2017 is the 12-month period from July 1, 2015 through June 30, 2016. Add up the taxes reported on Forms 941 for the third and fourth quarters of 2015 and the first and second quarters of 2016.

2. The correct answer is B, the Monthly Schedule. Since the total tax in the look-back period was less than \$50,000, the Monthly Schedule would be followed. Taxes may only be remitted with a return if the total tax for the quarter was under \$2,500. The Semiweekly Schedule would be used if the total tax during the lookback period was more than \$50,000.
3. The correct answer is B, 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 20

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 tax of \$765, and the employer's share of FICA tax of \$765.

Practical Exercise 4, page 22

1. True. If the tax is less than \$2,500, the tax may be paid with the return or deposited by the return due date. If there is \$2,500 or more in total tax in the current quarter and the prior quarter, the employer must follow the Monthly or Semiweekly Schedule for deposits.
2. True. There is a four step penalty for late deposits, from 2% to 15%, depending on how late the deposit is made.
3. 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 10 days after the employer receives a bill for the unpaid tax, the penalty increases to 15%.
4. True. There are late filing and late payment penalties in addition to late deposit penalties that can be charged if returns are not timely.
5. False. If the prior quarter tax is less than \$2,500, and the current quarter does not have a tax liability that reached \$100,000 or more within a deposit period, the taxpayer may pay the tax with a timely filed tax return, or deposit by the due date.

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Resource Guide for
Understanding

FEDERAL TAX DEPOSITS