

Federal Payroll Tax Administration



Payroll taxes are levied on the wages or earnings of workers. Payroll taxes are the federal government's second-largest revenue source (after individual income taxes), raising \$1.3 trillion (32% of federal revenue) in FY2021. Payroll taxes fund portions of Social Security and Medicare Part A (together Federal Insurance Contribution Act, FICA, taxes) and unemployment insurance (Federal Unemployment Tax Act, FUTA, tax).

FICA Taxes (Social Security and Medicare Hospital Insurance)



An employer pays an employee, creating a **FICA tax liability**.



An employer generally **withholds 7.65%** of wages paid to an employee and matches that withholding with 7.65% from their own funds.¹



An employer generally deposits FICA taxes on a **monthly** or **semiweekly** basis.

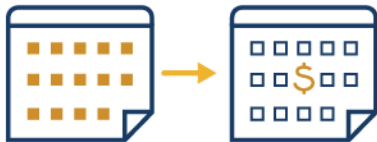
! *Self-employed workers owe self-employment tax of 15.3% (equal to the employee and employer share of FICA taxes), paid with their individual income taxes. They typically pay these through quarterly estimated tax payments.*

An employer's deposit schedule for a given calendar year depends on the employer's employment tax reporting history during a four-quarter lookback period, NOT on how often employees are paid. In 2022, the lookback period is: July 1, 2020, to June 30, 2021 (2020 Q3 to 2021 Q2).

Employers who reported:

\$50,000 or less in taxes are **monthly** depositors.

For a monthly depositor, FICA taxes on all wages paid in a month are **due on the 15th of the following month**.



more than \$50,000 in taxes are **semiweekly** depositors.

If the employer is a semiweekly depositor, then FICA taxes on wages paid are...

due the following Wednesday if wages are paid on Wednesday, Thursday, or Friday.



due the following Friday if wages are paid on Saturday, Sunday, Monday, or Tuesday.



Regardless of an employer's usual deposit schedule, the **one-day rule** requires them to deposit taxes on the **next business day** anytime they accrued **\$100,000 or more** in taxes.



Nearly all employers will file Form 941 quarterly to reconcile FICA tax deposits made during the quarter with their actual tax liability. Form 941 is also used to claim credits against FICA taxes.

FUTA Taxes (Unemployment Insurance)



An employer pays an employee. FUTA taxes are paid on the **first \$7,000** in wages paid to an employee during a year.



An employer pays FUTA taxes for covered wages at a rate of **0.6% to 6.0%** of wages. Only employers pay FUTA tax; none is withheld from employee wages.²



Employers deposit FUTA taxes by the **last day of the first month** after the end of a calendar quarter. For example, first quarter (January through March) FUTA taxes are due by April 30.



Employers file **Form 940** for FUTA taxes annually.

¹ The Social Security tax (6.2%) applies to covered wages up to the taxable maximum (\$147,000 in 2022; adjusted annually for wage growth). The 1.45% for Medicare Hospital Insurance (HI) tax applies to all earnings. Most, but not all, employees are covered by these programs. The employee-only Additional Medicare Tax of 0.9% is withheld if the employee earns more than a threshold amount that depends on the employee's individual income tax filing status.

² Employers are allowed a credit for state unemployment taxes paid, up to 5.4%. Employers in all jurisdictions except the U.S. Virgin Islands qualified for the full credit in 2021, so the FUTA tax for most employees is a maximum of $\$7,000 \times 0.6\% = \42 per year.

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