



Circular SS

Federal Tax Guide for Employers in the U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands

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▶ Employment Tax Rates and Wage Base for 1996

- Social Security Tax - 6.2% each for employers and employees
- Medicare Tax - 1.45% each for employers and employees
- Federal Unemployment (FUTA) Tax—6.2%
- 1996 Wage Base for Social Security Tax—\$62,700
- There is no wage base limit for Medicare tax. **All** wages are subject to Medicare tax in 1996.

▶ Household Employees

New rules went into effect in 1995 for reporting wages paid to household employees. See section 9 for more information.

▶ Federal Tax Deposits by Electronic Funds Transfer (EFT)

If your total deposits of withheld social security and Medicare taxes during calendar year 1994 exceeded \$47 million, you are required to deposit all depository taxes due in 1996 by EFT. See section 11 for more details.

Internal Revenue Service
P.O. Box 85627
Richmond, VA 23285-5627

Official Business

Penalty for Private Use, \$300

Do Not Forward

Peel off the label below and place it over boxes e, f, and g on the Form W-3SS you file with the Social Security Administration. If additional Forms W-3SS are filed, fill in your name, address, and employer identification number.

Bulk Rate

Postage and Fees Paid

Internal Revenue Service

Permit No. G-48

**Deliver to Payroll
Department**

Note: This publication contains important payroll information. Keep it. You will need to refer to it during the coming year.

Publication 80
(Rev. January 1996)

1996 Employer's Calendar

Note: For any due date, you will meet the "file" or "furnish" requirement if the form is properly addressed, mailed First-Class, and postmarked on or before the due date. If any date shown falls on a Saturday, Sunday, or legal holiday, the due date is the next business day.

All Employers

Each Time You Pay Wages

Record each wage payment and the amount deducted as employee social security and Medicare taxes. The employee tax rate for wages paid in 1996 is 6.2% for social security and 1.45% for Medicare. (See section 10.)

By January 31

Furnish each employee a completed Form W-2VI, W-2GU, W-2AS, or W-2CM. (See section 13.)

By February 29

Send Copy A of Forms W-2VI, W-2GU, W-2AS, or W-2CM with Form W-3SS to the Social Security Administration, Data Operations Center, 1150 E. Mountain Drive, Wilkes-Barre, PA 18769.

Employers (Other Than Agricultural)

By April 30, July 31, October 31, and January 31

File **Form 941-SS**, Employer's Quarterly Federal Tax Return, with the Internal Revenue Service, and pay any undeposited balance of taxes reported on the return. If you deposited the full amount of taxes when due, you are allowed 10 additional days from the due dates above to file the return.

Agricultural Employers

By January 31

File **Form 943**, Employer's Annual Tax Return for Agricultural Employees, with the Internal Revenue Service. Pay or deposit any balance of the tax due. If you deposited the full amount of taxes when due, you have ten additional days to file.

U.S. Virgin Islands Employers

By January 31

File **Form 940**, Employer's Annual Federal Unemployment (FUTA) Tax Return, with the Internal Revenue Service. Pay or deposit (if more than \$100) any balance of the tax due. If you deposited the full amount of tax when due, you have ten additional days to file.

By April 30, July 31, and October 31

Deposit FUTA tax for the quarter (including any amount carried over from earlier quarters) if over \$100. If \$100 or less, carry over to next quarter. (See section 15.)

Reminder

When Hiring Employees

Record the number and name from each new employee's social security card. An employee who does not have a number should apply for one on **Form SS-5**, Application for a Social Security Card. (See section 5.)

Where To Get and File Social Security Number Application Forms

U.S. Virgin Islands.— Social Security Administration Office, Room 113 Federal Office Building, 26 Veterans Drive, St. Thomas, VI 00801.

OR

Social Security Administration Office, Ville La Reine Shopping Center, P.O. Box 1346, St. Croix, VI 00850.

Guam.—Social Security Administration Office, 777 Route 4, Suite 6A, Sinjana, GU 96926.

American Samoa.—Social Security Administration Office, Room 210, Lumanai Building, P.O. Box 338, Pago Pago, AS 96799.

Commonwealth of the Northern Mariana Islands.— Social Security Administration Office, Nauru Building—Ground Floor, Beach Road—Susupe Village, P.O. Box 489, Saipan, MP 96950.

Working people in the U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands, like those working in the United States, are now building protection for themselves and their families under the Social Security program. The three kinds of monthly benefits under Social Security are:

1. Retirement —at age 65. (Reduced benefits are payable as early as age 62.)
 2. Disability —when a worker under age 65 becomes unable to work because of a disability.
 3. Survivors —when a worker dies.
- In addition to cash benefits, health insurance benefits are available for certain categories of people, whether or not they are retired.

General Information

1. Purpose of This Circular

Circular SS is for use by employers whose place of business is located in the U.S. Virgin Islands, Guam, American Samoa, or the Commonwealth of the Northern Mariana Islands. Employers and employees in these areas are generally subject to social security and Medicare taxes under the Federal Insurance Contributions Act. This circular summarizes employer responsibilities to collect, pay, and report these taxes.

It also provides employers in the U.S. Virgin Islands with a summary of their responsibilities in connection with the tax under the Federal Unemployment Tax Act, known as FUTA tax. See section 15.

Except as shown in the tables on pages 13 through 17, these taxes apply to every employer who pays taxable wages to employees or who has employees who report tips.

Whenever the term "United States" is used in this circular, it includes the U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.

This circular does not include instructions relating to the self-employment tax (for social security and Medicare of self-employed persons). Contact the Internal Revenue Service, Attention: IN:C:TPS, 950 L'Enfant Plaza, SW., Washington, DC 20024, or see **Pub. 570**, Tax Guide for Individuals With Income From U.S. Possessions, if you need this information.

This circular also does not include instructions relating to income tax withholding. See **Circular E**, Employer's Tax Guide, for information on U.S. Federal income tax withholding and advance earned income payments. Contact your local tax department about income tax withholding for the U.S. Virgin Islands, Guam, American Samoa, or the Commonwealth of the Northern Mariana Islands.

Note: *Employers in the U.S. Virgin Islands may call 1-800-829-1040 for Federal employment tax information.*

Publications and forms are available through on-line services. If you subscribe to an on-line service, ask if IRS information is available and, if so, how to get it. You can

also get the information through IRS, the Internal Revenue Information Services, on FedWorld, a government bulletin board. Tax forms, instructions, publications, and other IRS information, are available through IRIS.

IRIS is accessible directly by calling 703-321-8020. On the Internet, you can telnet to fedworld.gov or, for file transfer protocol services, connect to ftp.fedworld.gov. If you are using the WorldWideWeb, connect to http://www.ustreas.gov. FedWorld's help desk offers technical assistance on accessing IRIS (not tax help) during regular business hours at 703-487-4608 (not toll-free). The IRIS menus offer information on available file formats and software needed to read and print files. You must print the forms to use them; the forms are not designed to be filled out on-screen.

2. Are You an Employer?

An employer is a person or organization for whom a worker performs services as an employee. The employer has the right to fire an employee and usually provides the tools and a place to work. A person or organization paying wages to a former employee after employment ends is an employer.

Farm Crew Leaders

You are an employer of farmworkers if you are a crew leader. A crew leader is a person who furnishes and pays (either on his or her own behalf or on behalf of the farm operator) workers to do farmwork for the farm operator. If there is no written agreement between you and the farm operator stating that you are his or her employee, and if you pay the workers (either for yourself or for the farm operator), then you are a crew leader.

3. Employer Identification Number

The employer identification number (EIN) is a nine-digit number the IRS issues. Its format is 00-0000000. It is used to identify the tax accounts of employers and certain other organizations and entities that have no employees. For more information, get **Pub. 1635**, Understanding Your EIN.

If you have not applied for an EIN, you should do so on **Form SS-4**,

Application for Employer Identification Number, available from the IRS or Social Security Administration (SSA) offices.

Enter your EIN on all forms, attachments, and correspondence you send to the IRS and SSA.

You should have only one EIN. If you have more than one, notify the Internal Revenue Service Center where you file your return. Indicate what EINs you have, the name and address to which each EIN was assigned, and the address of your principal place of business. The IRS will tell you which number to use.

If you took over another employer's business, do not use that employer's EIN.

Please see Circular E for more information on how to make deposits, file returns, etc., if due before you receive your number.

4. Who Are Employees?

A worker can be defined as an employee either under common law or under special statutes for special purposes.

Common law employee.—

Generally, someone who performs services that can be controlled by you (what will be done and how it will be done) is your employee. This is so even when you give the employee freedom of action. What matters is that you have the **legal right** to control the method and result of the services. See **Pub. 15-A**, Employer's Supplemental Tax Guide, for detailed information on how to determine whether an individual providing services is an employee or an independent contractor.

Generally, people in business for themselves are not employees. For example, doctors, lawyers, veterinarians, construction contractors, and others in an independent trade in which they only offer their own services to the public are usually not employees.

If an employer-employee relationship exists, it makes no difference how it is described. It does not matter if the employee is called a partner, agent, or independent contractor. It also does not matter how payments are measured or paid, what they are called, or whether the employee works full or part time.

For this purpose, there is no employee class difference. An employee can be a superintendent,

manager, or supervisor. Generally, an officer of a corporation is an employee, but a director is not. An officer who performs no services or only minor ones and who neither receives nor is entitled to receive pay of any kind is not considered an employee.

Whether an employer-employee relationship exists under the usual common law rules will be determined, when there is any doubt, by the facts in each case.

If you have a good reason for treating a worker other than as an employee, you may not be liable for employment taxes on the payments to that worker. To get this relief, you must file all required Federal tax returns, including information returns (Form 1099-MISC), on a basis consistent with your treatment of the worker. You (or your predecessor) must not have treated any worker holding a substantially similar position as an employee for any period after 1977. See Rev. Proc. 85-18, 1985-1 C.B. 518, for details.

This relief is not available, however, to a business that furnishes technical service specialists (e.g., engineers, computer programmers, and systems analysts) to clients. In these cases, the employment relationship between the business and the technical service specialist will be determined under the common law rules.

Note: *If you, as the business that furnishes technical service specialists to clients, correctly treat a technical service specialist as an independent contractor under the common law rules, you will not be liable for employment taxes on that individual. See Rev. Rul. 87-41, 1987-1 C.B. 296, for guidelines for determining the employment status of a technical service specialist.*

Statutory employees.—There are also some special definitions of employees for social security, Medicare, and FUTA taxes.

While the following persons may not be common law employees, they are considered employees for social security and Medicare purposes if tests **1** through **3** below are met. Persons in **a** and **d** are employees for FUTA tax purposes if tests **1** through **3** are met.

a. An agent (or commission) driver who delivers food or beverages (other than milk) or picks up and delivers laundry or dry cleaning as an agent for someone else.

b. A full-time life insurance salesperson selling primarily for one company.

c. A homemaker who works by the guidelines of the person for whom the work is done, with materials furnished by and returned to that person or to someone that person designates.

d. A traveling or city salesperson (other than an agent-driver or commission-driver) who works full time (except for sideline sales activities) for one firm or person getting orders from customers. The orders must be for items for resale or use as supplies in the customer's business. The customers must be retailers, wholesalers, contractors, or operators of hotels, restaurants, or other businesses dealing with food or lodging.

Tests.—

1. It is understood from a service contract that the services will be performed by the person.

2. The person does not have a substantial investment in facilities (other than transportation) used to perform the services.

3. The services involve a continuing relationship with the person for whom they are performed.

Pub. 15-A gives examples of the employer-employee relationship.

If you want the IRS to determine whether a worker is an employee, file **Form SS-8**, Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding. The form is available at IRS offices.

Statutory nonemployees.—Direct sellers and certain real estate agents are by law considered nonemployees. They are instead treated as self-employed for employment tax purposes. See Pub. 15-A for details on these two groups.

Treating employees as nonemployees.—If you incorrectly treated an employee as a nonemployee and did not withhold social security and Medicare taxes, you will be liable for them. See Internal Revenue Code section 3509 for details.

5. Employee's Social Security Number (SSN)

You must get each employee's name and SSN because you must enter them on the employee's wage

and tax statement, Form W-2VI, W-2GU, W-2AS, or W-2CM. If you do not provide the correct name and SSN, you may owe a penalty.

If an employee does not have a social security card or needs a new one, the employee should apply for one on Form SS-5. See page 2 for addresses where the form may be obtained and where it should be sent. If your employee has applied for an SSN but does not have one when you file his or her wage and tax statement, enter "Applied For" on the form. When the employee receives the SSN, file **Form W-2c**, Statement of Corrected Income and Tax Amounts, to show the employee's SSN.

Note: *Record the name and number of each employee exactly as they appear on his or her social security card. If the employee's name as shown on the card is not correct, the employee should request a new card from the SSA.*

Employees who apply for social security cards must supply proof of age, identity, and citizenship. If they are not citizens of the United States, they must submit evidence of their alien status.

If your employee was given a new social security card to show his or her correct name and number after an adjustment to his or her alien residence status, correct your records and show the new information on Form W-2VI, W-2GU, W-2AS, or W-2CM. If you filed a form for the same employee in prior years under the old name and SSN, file Form W-2c to correct the name and number. Advise the employee to contact the local SSA office about 9 months after Form W-2c is filed to ensure his or her records have been updated.

6. Taxable Wages

Wages subject to social security tax (and FUTA tax for U.S. Virgin Islands employers) consist of all pay, up to the wage limit for the year, you give an employee for services performed. All wages are subject to Medicare tax. The pay may be in cash or in other forms, such as an automobile for personal use. It includes salaries, vacation allowances, bonuses, commissions, and fringe benefits. It does not matter how payments are measured or paid.

See pages 12 through 17 for exceptions to taxes on wages. See pages 5 and 6 for a discussion of how the rules apply to tips,

farmworkers, and household employees.

Social security and Medicare taxes apply to most payments of sick pay, including payments by third parties such as insurance companies. Special rules apply to the reporting of third-party sick pay. For details, see section 16.

Value noncash pay (such as goods, lodging, and meals) by its fair market value. However, see **Fringe Benefits** below. This kind of pay may be subject to tax and withholding.

Backpay, including retroactive wage increases (but not amounts paid as liquidated damages), is taxed as ordinary wages in the year paid.

Backpay under a statute.—Treat backpay as wages and withhold and pay employment taxes under the general rules. If backpay was awarded by a court or government agency to enforce a Federal or state statute protecting an employee's right to employment or wages, special rules apply for reporting those wages to the SSA. These rules also apply to litigation actions, settlement agreements, or agency directives that are resolved out of court and not under a court decree or order. Examples of pertinent statutes include, but are not limited to, the National Labor Relations Act, Fair Labor Standards Act, Equal Pay Act, Civil Rights Act, and the Age Discrimination in Employment Act. See **Pub. 957**, Reporting Back Pay to the Social Security Administration.

Travel and business expenses.—Payments to your employee for travel and other necessary expenses of your business generally are taxable if (1) your employee is not required to or does not substantiate timely those expenses to you with receipts or other documentation, or (2) you advance an amount to your employee for business expenses and your employee is not required to or does not return timely any amount he or she does not use for business expenses.

Fringe Benefits

Unless the law says otherwise, fringe benefits are includible in the gross income of the employee and are subject to income and employment taxes. Examples of fringe benefits include automobiles or aircraft flights you provide, free or discounted commercial airline flights, vacations, discounts on property or services, memberships

in country clubs or other social clubs, and tickets to entertainment or sporting events. In general, the amount includible is the excess of the fair market value of the benefit over the sum of any amount paid for it by the employee plus any amount excludable by law. Provided that a timely notice is given to the employees, there are optional special valuation rules that may be used by employers and employees to value certain fringe benefits. Certain fringe benefits are specifically excludable by law. For details on fringe benefits, see Pub. 15-A.

When are fringe benefits treated as paid?—You can elect to treat taxable noncash fringe benefits (including personal use of an automobile provided by you) as paid by the pay period, quarter, or on any other basis you choose, but they must be treated as paid at least annually. You do not have to make a formal election of payment dates or notify the IRS. You do not have to make this election for all employees, and the election can be changed as often as desired, as long as all benefits provided in a calendar year are treated as paid no later than December 31 of the calendar year. However, see **Special accounting rule for fringe benefits provided during November and December**, below.

You can treat the value of a single taxable noncash fringe benefit as paid on one or more dates in the same calendar year, even if the employee gets the entire benefit at one time. However, once you elect the payment dates, you must report the taxes on your return in the same tax period in which you treated them as paid. This election does not apply to a fringe benefit where real property or investment personal property is transferred.

Withholding social security and Medicare taxes on fringe benefits.—You add the value of fringe benefits to regular wages for a payroll period and figure social security and Medicare taxes on the total.

If you withhold less than the required amount of social security and Medicare taxes from the employee in a calendar year but report the proper amount, you may recover the taxes from the employee.

Depositing taxes on fringe benefits.—Once payment dates for taxable noncash fringe benefits are

elected, taxes are deposited under the general deposit rules, including those for timeliness of deposit. You may make a reasonable estimate of the value of the fringe benefits deemed to be paid on the date(s) elected, for purposes of meeting the timely deposit requirements.

You may claim a refund of overpayments or elect to have any overpayment applied to the next employment tax return. If deposits are underpaid, see **Penalties** in section 11.

When to report fringe benefits.—In general, the value of taxable noncash fringe benefits provided in a calendar year must be determined by January 31 of the following year. If you provide a vehicle, you may either determine the actual value of the benefit for the entire calendar year, taking into account the business use of the vehicle, or consider the entire use for the calendar year as personal and include 100% of the value of the vehicle in the employee's income. For reporting information, see section 13.

Special accounting rule for fringe benefits provided during November and December.—You may choose to treat the value of taxable noncash fringe benefits provided during November and December as paid in the next year. However, this applies only to those benefits you actually provided during November and December, not to those you merely treated as paid during those months. You may not use this rule to report moving expense reimbursements, expense allowances paid under nonaccountable plans, or taxable education reimbursements.

If you use this rule, you must notify each affected employee between the time of the employee's last paycheck of the calendar year and at or near the time you give the employee Form W-2AS, W-2GU, W-2VI, or W-2CM. If you use the special accounting rule, your employee must also use it for all purposes (e.g., for deductions related to the fringe benefit) and for the same period. You cannot use this rule for a fringe benefit when you transfer real property or investment personal property to your employee.

7. Taxable Tips

Tips your employee receives are generally subject to withholding.

Your employee must report cash tips to you by the 10th of the month after the month the tips are received. The report should include tips you paid to the employee from charge receipts. Also include tips the employee received directly from customers and other employees and indirectly (e.g., tip splitting). The report should not include tips the employee paid out to other employees. No report is required for months when tips are less than \$20. Your employees report tips on **Form 4070**, Employee's Report of Tips to Employer, or on a similar statement. They may also use **Form 4070-A**, Employee's Daily Record of Tips, to keep a record of their tips. Both forms are printed in **Pub. 1244**, Employee's Daily Record of Tips and Report to Employer.

The statement must be signed by the employee and must show the following:

- The employee's name, address, and SSN.
- Your name and address.
- The month or period the report covers.
- The total tips.

You must collect the employee social security and Medicare taxes on the employee's tips. You can collect these taxes from the employee's wages or from other funds he or she makes available. Stop collecting the employee social security tax when his or her total wages and tips for the year reaches \$62,700.

You are responsible for the employer social security tax on wages and tips until the wages (including tips) reach the appropriate limit. There is no limit on Medicare tax. File Form 941-SS to report withholding on tips.

If, by the 10th of the month after the month you received an employee's report on tips, you don't have enough employee funds available to deduct the employee tax, you no longer have to collect it. Show any uncollected social security and Medicare taxes on Form W-2AS, W-2GU, W-2VI, or W-2CM.

The table on page 17 shows how tips are treated for FUTA tax purposes.

8. Social Security and Medicare Taxes for Farmworkers

The tests described below apply

only to services that are defined as agricultural labor (farmwork). Farmworkers are employees who:

- Raise or harvest agricultural or horticultural products on a farm.
- Work in connection with the operation, management, conservation, improvement, or maintenance of your farm and its tools and equipment.
- Handle, process, or package any agricultural or horticultural commodity if you produced over half of the commodity.
- Do work related to cotton ginning, turpentine, or gum resin products.
- Do housework in your private home if it is on a farm that is operated for profit.

For more information, see the table on page 13.

No tax is due (no matter how much is paid) for the services of a share farmer. However, the share farmer may be subject to self-employment tax.

The \$150 Test or the \$2,500 Test

Social security and Medicare taxes apply to cash wages you paid during the year to an employee for farmwork if either of the two tests below is met:

- You pay cash wages to an employee of \$150 or more in a year (count all cash wages paid on a time, piecework, or other basis) for farmwork. The \$150 test applies separately to each farmworker you employ. If you employ a family of workers, each member is treated separately. Do not count wages paid by other employers.
- You pay \$2,500 or more during the year to all your employees for agricultural labor.

Exception: a. Wages you pay to a farmworker who receives less than \$150 in annual cash wages are not subject to social security or Medicare tax even if you pay \$2,500 or more in that year to all your farmworkers if the farmworker:

1. Is employed in agriculture as a hand-harvest laborer,
2. Is paid piece rates in an operation that is usually paid on a piece-rate basis in the region of employment,
3. Commutes daily from his or her home to the farm, and
4. Was employed in agriculture less than 13 weeks in the preceding calendar year.

The amounts you pay to these seasonal farmworkers, however, count toward the \$2,500-or-more test for determining social security and Medicare coverage of other farmworkers.

b. Cash wages you pay to household workers are counted in the \$150 and \$2,500 tests, but are not subject to social security and Medicare taxes unless you have paid the employee \$1,000 or more in cash wages for the calendar year. See the table showing liability for social security, Medicare and FUTA taxes.

9. Social Security and Medicare Taxes for Household Employees

General rule.—For each household employee to whom you pay \$1,000 or more in 1996, you are required to withhold and pay social security and Medicare taxes.

If you are a sole proprietor and file Form 941-SS for business employees, you may include the wages paid to household employees on that form.

If you also must file **Form 1040**, U.S. Individual Income Tax Return, you may choose to report the wages paid to your household employees on that form. Attach **Schedule H**, Household Employment Taxes.

If you do not have business employees, but are required to file Form 1040, report the wages on Schedule H of that form.

If you do not have business employees, and are not required to file Form 1040, report the taxable wages paid to your household employees on Schedule H. File Schedule H as a separate return. Do not attach it to a Form 1040.

Exceptions.—The \$1,000 test applies to each household employee. checks, money orders, etc., are treated as cash. The value of food, lodging, clothing, bus tokens, and other noncash items given to the household employee is not subject to social security or Medicare taxes.

You do not have to pay social security or Medicare taxes on cash wages for household work in your home by your mother or father unless both of the following apply:

- You have in your home a son or daughter, or stepson or stepdaughter, who is under age 18, or who has a physical or mental

condition requiring the personal care of an adult for at least 4 continuous weeks in the quarter.

- You are a widow or widower, or are divorced, or have a spouse in your home who, because of a physical or mental condition, cannot care for your son or daughter, or stepson or stepdaughter, for at least 4 continuous weeks in the quarter.

Social security and Medicare taxes do not apply to household work performed in your home by your child who is under age 21.

Payments for household services are exempt from social security and Medicare taxes if performed by an individual who is under age 18 during any portion of the calendar year, unless household work is the principal occupation of the employee. See **Pub. 926**, Household Employer's Tax Guide, for more information.

10. How to Figure Social Security and Medicare Taxes

For wages paid in 1996, the social security tax rate is 6.2% and the Medicare tax rate is 1.45% for both the employer and the employee. Multiply each wage payment by these percentages to figure the tax. For example, the social security tax on a wage payment of \$355 would be \$22.01 ($\$355 \times .062$) each. The Medicare tax would be \$5.15 ($\$355 \times .0145$) each. (See section 7 for information on tips.)

Deduct the employee tax from each wage payment. If you are not sure that the wages you pay to a farmworker during the year will be taxable, you may either deduct the tax when you make the payments or wait until the \$2,500 test or the \$150 test explained in section 8 has been met.

If you would rather pay the employee's share of social security and Medicare taxes without deducting it from his or her wages, you may do so. If you do not deduct the taxes, you must still pay them. Any employee social security and Medicare taxes you pay for the employee are additional income to the employee.

Any employee social security and Medicare taxes you pay (rather than deducting them) for employees who are not household workers or farmworkers are includible in social security and Medicare wages. See Pub. 15-A for more information.

11. Payment of Taxes and Deposit Requirements

Generally, you must deposit social security and Medicare taxes of \$500 or more by mail or by delivering a check, money order, or cash to an authorized depository or a Federal Reserve bank. A **Form 8109**, Federal Tax Deposit Coupon, must accompany each deposit. See **Depositing Taxes** later for further details. To avoid a penalty, do not mail your deposit directly to the IRS. Records of your deposits will be sent to the IRS for crediting to your business accounts.

If your total deposits of social security and Medicare taxes during calendar year 1994 exceeded \$47 million, you are required to deposit all depository taxes due in 1996 by electronic funds transfer (EFT). TAXLINK, an electronic remittance processing system, must be used to make deposits by EFT. If you are not required to make deposits by EFT, you may voluntarily participate in TAXLINK. For more details on TAXLINK, call the toll-free TAXLINK HELPLINE at 1-800-829-5469. (Use this number only for TAXLINK information.)

Figure taxes for farmworkers separately. A separate deposit coupon must accompany each deposit of these taxes.

You are responsible for depositing not only the employer taxes but also the taxes withheld from the wages of employees.

Deposit Rules

There are two deposit schedules—monthly or semiweekly—for determining when you deposit social security and Medicare taxes.

Note: *Under the rules discussed below, the only difference between farm and nonfarm workers' employment tax deposit rules is the lookback period. Therefore, farm and nonfarm workers are discussed together except where noted.*

The IRS will notify you each November whether you are a monthly or a semiweekly schedule depositor for the coming calendar year. If you do not receive the notification, determine your depositor status at the beginning of the calendar year based on the total tax you reported on your original Forms 941-SS or Form 943 for the lookback period (explained below).

Lookback period for employers of nonfarm workers.—The lookback period consists of four quarters beginning July 1 of the second preceding year and ending June 30 of the prior year. These four quarters are your lookback period even if you did not report any taxes for any of the quarters. For 1996, the lookback period is July 1, 1994, through June 30, 1995:

Lookback Period for Calendar Year 1996			
Calendar Year 1996			
Jan.–Mar.	Apr.–June	July–Sept.	Oct.–Dec.
Lookback Period			
1994		1995	
July–Sept.	Oct.–Dec.	Jan.–Mar.	Apr.–June

Lookback period for employers of farmworkers.—The lookback period is the second calendar year preceding the current calendar year. For example, the lookback period for calendar year 1996 is calendar year 1994.

Adjustments to lookback period taxes.—To determine your taxes for any return period in the lookback period, use only the tax you reported on the original returns (Forms 941-SS or Form 943). Do not include adjustments made on a supplemental return filed after the due date of the return. However, if you make adjustments on Form 941-SS or 943, the adjustments are included in the total tax for the return period in which the adjustments are reported.

Example of adjustments.—An employer originally reported total taxes of \$45,000 for the lookback period. The employer discovered during February 1996 that the tax during the lookback period was understated by \$10,000 and corrected this error with an adjustment on the 1996 first quarter Form 941-SS or the 1996 Form 943. The total taxes reported in the lookback period are \$45,000. The \$10,000 adjustment is treated as part of the 1996 taxes.

Monthly deposit schedule.—If the total tax reported for the lookback period is \$50,000 or less, you are a monthly schedule depositor for the current year. You must deposit employment taxes and taxes withheld on payments made during a calendar month by the 15th day of the following month.

New employers.—During the first calendar year of your business, your taxes for the lookback period are considered to be zero. Therefore, you are a monthly schedule

depositor for the first calendar year of your business (but see the **\$100,000 one-day deposit rule** exception later).

Semiweekly deposit schedule.—If the total tax reported for the lookback period is more than \$50,000, you are a semiweekly schedule depositor for the current year. If you are a semiweekly schedule depositor, you must deposit on Wednesday and/or Friday, depending on what day of the week you make payments, as shown below:

Payment Days/Deposit Periods Deposit by

Wednesday, Thursday, and/or Friday Following Wednesday

Saturday, Sunday, Monday, and/or Tuesday Following Friday

If a return period ends on a day other than Tuesday or Friday, taxes accumulated on the days in the return period just ending are subject to one deposit obligation, and taxes accumulated on the days in the next return period are subject to a separate deposit obligation. For example, if one return period ends on Thursday and a new return period begins on Friday, taxes accumulated on Wednesday and Thursday are subject to one deposit obligation and taxes accumulated on Friday are subject to a separate obligation. Separate **Forms 8109** Federal Tax Deposit Coupon, are required for each deposit because two different return periods are affected. Be sure to clearly mark the return period for which the deposit is made on each Form 8109.

Example of monthly and semiweekly schedules for employers of nonfarm workers.—Rose Co. accumulated taxes on Form 941-SS as follows:

1995 Lookback Period

3rd Quarter 1993	-	\$12,000
4th Quarter 1993	-	\$12,000
1st Quarter 1994	-	\$12,000
2nd Quarter 1994	-	<u>\$12,000</u>
		\$48,000

1996 Lookback Period

3rd Quarter 1994	-	\$12,000
4th Quarter 1994	-	\$12,000
1st Quarter 1995	-	\$12,000
2nd Quarter 1995	-	<u>\$15,000</u>
		\$51,000

Rose Co. is a monthly schedule depositor for 1995 because its taxes for the four quarters in its lookback period (\$48,000 for the 3rd quarter of 1993 through the 2nd quarter of

1994) were not more than \$50,000. However, for 1996, Rose Co. is a semiweekly depositor because the total taxes for the four quarters in its lookback period (\$51,000 for the 3rd quarter of 1994 through the 2nd quarter of 1995) exceeded \$50,000.

Example of monthly and semiweekly schedules for employers of farmworkers.—Red Co. accumulated taxes on Form 943 as follows:

Calendar year 1993 - \$48,000

Calendar year 1994 - \$60,000

Red Co. is a monthly depositor for 1995 because its taxes for its lookback period (\$48,000 for calendar year 1993) were not more than \$50,000. However, for 1996, Red Co. is a semiweekly depositor because the total taxes for its lookback period (\$60,000 for calendar year 1994) exceeded \$50,000.

Application of Monthly and Semiweekly Schedules

The terms “monthly schedule depositor” and “semiweekly schedule depositor” do not refer to how often your business pays its employees, or even how often you are required to make deposits. The terms identify which set of rules you must follow when a tax liability arises (e.g., when you have a payday). The deposit rules are based on the dates wages are paid; not on when payroll liabilities are accrued.

Monthly schedule example.—

Green Inc. is a seasonal employer which is a monthly schedule depositor. It pays wages each Friday. During January it paid wages but did not pay any wages during February. Green Inc. must deposit the combined tax liabilities for the four January paydays by February 15. Green Inc. does not have a deposit requirement for February (i.e., due by March 15) because no wages were paid in February and, therefore, it did not have a tax liability for February.

Semiweekly schedule example.—

Blue Co., a semiweekly schedule depositor, pays wages on the last day of the month. Blue Co. will only deposit once a month, but the deposit will be made under the semiweekly deposit schedule as follows. Blue Co.'s tax liability for the January 30, 1996 (Tuesday) payday must be deposited by February 2, 1996 (Friday).

Deposits on banking days only.—If a deposit is required to be made on a day that is not a banking day, the deposit is considered timely if it is made by the close of the next banking day. In addition to Federal and state bank holidays, Saturdays and Sundays are treated as nonbanking days. For example, if a deposit is required to be made on Friday, but Friday is not a banking day, the deposit is considered timely if it is made by the following Monday.

Semiweekly schedule depositors will always have 3 banking days after the end of a semiweekly period to make a deposit. That is, if any of the 3 weekdays after the end of a semiweekly period is a banking holiday, you will have one additional banking day to deposit. For example, if a semiweekly schedule depositor accumulated taxes for payments made on Friday and the following Monday is not a banking day, the deposit normally due on Wednesday may be made on Thursday (allowing 3 banking days to make the deposit).

\$100,000 one-day deposit rule.—If you accumulate taxes of \$100,000 or more on any day during a deposit period, you must deposit by the close of the next banking day, whether you are a monthly or a semiweekly schedule depositor. For monthly depositors, the deposit period is a calendar month. For semiweekly schedule depositors, the deposit periods are Wednesday through Friday and Saturday through Tuesday.

For purposes of the \$100,000 rule, do not continue accumulating taxes after the end of a deposit period. For example, if a semiweekly schedule depositor has accumulated taxes of \$95,000 on Tuesday and \$10,000 on Wednesday, the \$100,000 one-day rule does not apply because the \$10,000 is accumulated in the next deposit period. Thus, \$95,000 must be deposited on Friday and \$10,000 must be deposited on the following Wednesday.

In addition, once you accumulate at least \$100,000 in a deposit period, stop accumulating at the end of that day and begin to accumulate anew on the next day. For example, Fir Co. is a semiweekly schedule depositor. On Monday, Fir Co. accumulates taxes of \$110,000 and must deposit on Tuesday, the next banking day. On Tuesday, Fir Co. accumulates additional taxes of

\$30,000. Because the \$30,000 is not added to the previous \$110,000 and is less than \$100,000, Fir Co. must deposit the \$30,000 on Friday using the normal semiweekly deposit schedule.

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

Example of \$100,000 one-day deposit rule.—Elm Inc. started business on February 1, 1996. Because Elm Inc. is a new employer, the taxes for its lookback period are considered to be zero; therefore, Elm Inc. is a monthly schedule depositor. On February 8, Elm Inc. paid wages for the first time and accumulated taxes of \$60,000. On February 15, Elm Inc. paid wages and accumulated taxes of \$50,000, for a total of \$110,000. Because Elm Inc. accumulated \$110,000 on February 15, it must deposit \$110,000 by February 16, the next banking day. Elm Inc. immediately becomes a semiweekly schedule depositor for the remainder of 1996 and for 1997 but may be subject to the \$100,000 one-day deposit rule if it accumulates \$100,000 again in any semiweekly period.

Accuracy of deposits rule.—You will be considered to have satisfied the deposit requirements if you deposit timely at least 98% of your tax liability or if any deposit shortfall does not exceed \$100. No deposit penalties will be applied if the shortfall is deposited by the shortfall makeup date as follows:

- **Monthly Schedule Depositor**—Deposit or pay the shortfall with your return by the due date of the Form 941-SS (or 943) for the period in which the shortfall occurred. You may pay the shortfall with your return even if the amount exceeds \$500.

- **Semiweekly Schedule and \$100,000 One-Day Depositor**—Deposit by the earlier of the first Wednesday or Friday that comes on or after the 15th of the month following the month in which the shortfall occurred or, if earlier, the return due date for the period in which the shortfall occurred. For example, if a semiweekly schedule depositor has a shortfall during

January 1996, the shortfall makeup date is February 16, 1996 (Friday).

However, if the deposit was made January 4, 1996, for a December, 1995, pay date, the return due date (January 31) comes before the February 16 date. The shortfall makeup date is January 31.

You will not be subject to a penalty if your shortfall was due to reasonable cause.

\$500 rule.—If you accumulate less than a \$500 tax liability during a return period, no deposits are required. You may pay it with your tax return. However, if you are unsure that you will accumulate less than \$500 for a return period, deposit under the appropriate rules so that you will not be subject to failure to deposit penalties.

Note: *You must deposit all taxes unless you fall under the \$500 rule above and/or are a monthly depositor with a shortfall amount.*

Employers of Both Farm and Nonfarm Workers

If you employ both farm and nonfarm workers, you must treat employment taxes for the farmworkers (Form 943 taxes) separately from employment taxes for the nonfarm workers (Form 941-SS taxes). Form 943 taxes and Form 941-SS taxes are not combined for purposes of applying any of the deposit rules.

If a deposit is due, deposit the Form 941-SS taxes and Form 943 taxes with separate FTD coupons.

Depositing Taxes

Federal tax deposit (FTD) coupon.—Use **Form 8109**, Federal Tax Deposit Coupon, to deposit employment taxes and all other types of taxes that are deposited. **Do not** use the FTD coupons to pay delinquent taxes assessed by the IRS. These payments should be sent directly to your Internal Revenue Service Center with a copy of any related notice the IRS sent you.

How to get Federal tax deposit coupons.—The IRS will send you an FTD coupon book 5 to 6 weeks after you receive an EIN. (Apply for an EIN on Form SS-4.) The FTD coupons are preprinted with your name, address, and EIN. The IRS will keep track of the number of coupons you use and **automatically** will send you additional FTD coupons when you need them. If you do not receive your resupply of

FTD coupons, contact your local IRS office.

You can have the FTD coupon books sent to a branch office, tax preparer, or service bureau that is making your deposits by showing that address on **Form 8109C**, FTD Address Change, which is in the FTD coupon book. (Using Form 8109C will not change your address of record; it will change only the address where the FTD coupons are mailed.)

Note: *It is very important to clearly mark the correct type of tax and tax period on each FTD coupon. This information is used by the IRS to credit your account.*

If you have branch offices depositing taxes, give them FTD coupons so they can deposit the taxes when due.

Please use only your FTD coupons. If you use anyone else's FTD coupon, you may be subject to the failure to deposit penalty. See **Penalties**, below, for details.

How to make deposits.—Deliver or mail each FTD coupon and a single payment covering the taxes to be deposited to a qualified depository for Federal taxes or to the Federal Reserve bank or branch (FRB) serving your area. An authorized depository is a financial institution (e.g., a commercial bank) that is authorized to accept Federal tax deposits. Follow the instructions in the FTD coupon book. Make the check or money order payable to the depository or FRB where you make your tax deposit. To help ensure proper crediting of your account, include your EIN, the type of tax (e.g., Form 941-SS), and tax period to which the payment applies on your check or money order. U.S. Virgin Islands employers may send deposits to the Federal Reserve Bank of New York. Employers in Guam, American Samoa, or the Commonwealth of the Northern Mariana Islands may send deposits to the Federal Reserve Bank of San Francisco.

Deposits at depositories.—Authorized depositories must accept cash, a postal money order drawn to the order of the depository, or a check or draft drawn on and to the order of the depository. You can deposit taxes with a check drawn on another financial institution only if the depository is willing to accept that form of payment.

Note: *Deposits made at an unauthorized financial institution may*

be subject to the failure to deposit penalty.

Deposits at FRBs.—If you want to make a deposit at an FRB, you must make that deposit with the FRB serving your area. Deposits may be subject to the failure to deposit penalty if the payment is not considered an immediate credit item on the day it is received by the FRB. A personal check, including one drawn on a business account, is not an immediate credit item. To avoid a penalty, deposits made by personal checks drawn on other financial institutions must be made in advance of the deposit due date to allow time for check clearance. To be considered timely, the funds must be available to the FRB on the deposit due date before the FRB's daily cutoff deadline. Contact your local FRB to obtain information concerning check clearance and cutoff schedules.

Depositing on time.—The IRS determines whether deposits are on time by the date they are received by an authorized depository or FRB. However, a deposit received by the authorized depository or FRB after the due date will be considered timely if you establish that it was mailed in the United States at least 2 days before the due date.

Note: *Deposits of \$20,000 or more that are made by employers required to deposit any taxes more than once a month must be received by the due date of the deposit to be timely.*

If you deposit taxes at an FRB and do not comply with the deposit payment requirements, that deposit will be dated on collection of the funds by the FRB, regardless of when mailed.

If you hand deliver your deposit to the depository on the due date, be sure to deliver it before the depository closes its business day.

Depositing without an EIN.—If you have applied for an EIN but **have not** received it, and a deposit must be made, make the deposit with your Internal Revenue Service Center. Do not make the deposit at an authorized depository or FRB. Make it payable to the Internal Revenue Service and show on it your name (as shown on Form SS-4), address, kind of tax, period covered, and date you applied for an EIN. Attach an explanation to the deposit. **Do not** use Form 8109-B in this situation.

Depositing without Form 8109.—If you do not have the preprinted Form 8109, you may use Form 8109-B to

make deposits. Form 8109-B is an over-the-counter FTD coupon that is not preprinted with your identifying information. It is available at IRS offices. Be sure to have your EIN ready when you contact the office. You will be able to get this form by calling the general 1-800-TAX-FORM number. Use Form 8109-B to make deposits only if:

- You are a new entity and you already have been assigned an EIN, but you have not received your initial supply of Forms 8109; or
- You have not received your resupply of preprinted Forms 8109.

Deposit record.—For your records, a stub is provided with each FTD coupon in the coupon book. The FTD coupon itself will not be returned. It is used to credit your account. Your check, bank receipt, or money order is your receipt.

How to claim credit for overpayments.—If you deposited more than the right amount of taxes, you can ask on the tax return you file to have the overpayment refunded or applied as a credit to your next return. Do not ask the depository or the FRB to request a refund from the IRS for you.

Penalties.—Penalties may apply if you do not make required deposits on time, you make deposits at an unauthorized financial institution, you pay directly to the IRS, or you pay with your return amounts that were required to be deposited. The penalties do not apply if any failure to make a proper and timely deposit was due to a reasonable cause and not to willful neglect. For amounts not properly or timely deposited, the penalty rates are:

- 2%—Deposits made 1 to 5 days late
- 5%—Deposits made 6 to 15 days late
- 10%—Deposits made 16 or more days late. This also applies to amounts paid to the IRS within 10 days of the date of the first notice the IRS sent you asking for the tax due.
- 10%—Deposits made at unauthorized financial institutions or directly to the IRS (but see **Depositing without an EIN** earlier).
- 15%—Amounts still unpaid more than 10 days after the date of the first notice the IRS sent you asking for the tax due or the day on which you receive notice and demand for immediate payment, whichever is earlier.

Order in which deposits are applied.—Tax deposits are applied first to satisfy any past due underdeposits, with the oldest underdeposit satisfied first.

Example. Cedar Inc. is required to make a deposit of \$1,000 on February 15 and \$1,500 on March 15. Cedar Inc. does not make the deposit on February 15. On March 15, Cedar Inc. deposits \$1,700 assuming that it has paid the March deposit in full and applied \$200 to the late February deposit. However, because deposits are applied first to past due underdeposits in due date order, \$1,000 of the March 15 deposit is applied to the late February deposit. The remaining \$700 is applied to the March 15 deposit. Therefore, in addition to an underdeposit of \$1,000 for February 15, Cedar Inc. has an underdeposit for March 15 of \$800. Penalties will be applied to both underdeposits as explained above.

Trust fund recovery penalty.—If social security and Medicare taxes that must be withheld are not withheld or are not paid to the IRS, the trust fund recovery penalty may apply. The penalty is 100% of the unpaid taxes. This penalty may apply to you if these unpaid taxes cannot be immediately collected from the employer or business.

The trust fund recovery penalty may be imposed on all persons determined by the IRS to be responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so.

A **responsible person** can be an officer or employee of a corporation, a partner or employee of a partnership, an accountant, or an employee of a sole proprietorship. A responsible person also may be a trustee or agent who signs checks for the business or otherwise has authority to cause the spending of business funds.

Willfully means voluntarily, consciously, and intentionally. A responsible person acts willfully if the person knows the required actions are not taking place.

Note: *Under certain conditions, third parties (lenders, sureties, etc.) who pay wages directly to employees of another or who finance employers' payrolls are liable for the taxes required to be withheld from employees' wages. See section 16 for further details.*

12. Employer's Returns

General instructions.—File Forms 941-SS for nonagricultural employees and 943 for farmworkers.

The IRS sends each employer a form preaddressed with name, address, and EIN. If you misplaced your form or did not receive one, ask the IRS for one. If you use a nonpreaddressed form, enter your name and EIN exactly as they appeared on previous returns.

Nonagricultural employers.—Every nonagricultural employer must file a quarterly return on Form 941-SS. File your first return for the calendar quarter in which you pay wages for nonfarm workers.

Quarter	Quarter Ending	Due
Jan., Feb., Mar.	Mar. 31.	Apr. 30
Apr., May, June	June 30.	July 31
July, Aug., Sept.	Sept. 30	Oct. 31
Oct., Nov., Dec.	Dec. 31.	Jan. 31

However, if you deposited all taxes when due for the quarter, you may file the return by the 10th day of the second month following the quarter.

Report household workers in a private home on a farm operated for profit as farmworkers on Form 943.

If you stop paying wages, mark the appropriate box and show the date final wages were paid at the top of Form 941-SS for the quarter in which you made the final payment.

Employers of farmworkers.—Every employer of farmworkers must file a Form 943 for each calendar year beginning with the first year you pay \$2,500 or more for farmwork or you employ a farmworker who meets the \$150 test described in section 8.

File a Form 943 each year for all taxable wages paid for farmwork and for domestic services (maids, cooks, etc.) on a farm operated for profit. Do **NOT** report those employees on Form 941-SS.

Send Form 943 to the IRS by January 31 of the following year. Send it with payment of any taxes due that you are not required to deposit. If you deposited all taxes when due, you have until February 10 to file Form 943.

If you receive a Form 943 for a year in which you are not liable for filing, write "NONE" on the form and send it back to the IRS. If at that time you do not expect to meet either test in section 8 in the future, mark the box near the top of the

form indicating you do not have to file future returns. If you later become liable for any of the taxes, notify your Internal Revenue Service representative.

Adjustments

Adjustments are made to correct errors in tax made on earlier returns. For every return on which you report an adjustment, attach a statement. This should explain the adjustment, the period covered, and any other information required by the instructions on the return.

If you withhold no social security tax, Medicare tax, or less than the right amount of either tax from an employee's wages, you can make it up from later pay to that employee. But you are responsible for the underpayment. Any reimbursement from the employee's own funds for amounts not collected must be agreed to by you and the employee. (This does not apply to tax on tips. See section 7.)

If you withhold more than the right amount of social security tax or Medicare tax from wages paid, give the employee the amount overcollected. Be sure to keep in your records the employee's written receipt showing the date and amount of the repayment. If you don't have a receipt, you must report and pay any overcollection when you file the return for the quarter in which the overcollection was made.

Forms 941-SS and 943 explain how to correct mistakes in reporting withheld social security and Medicare taxes, including the use of **Form 941c**, Supporting Statement To Correct Information. If you cannot make an adjustment for overwithheld social security and/or Medicare taxes, you may be able to claim a refund of these taxes on **Form 843**, Claim for Refund and Request for Abatement.

DO NOT file Form 941c separately from Form 941-SS or 943. Form 941c is not an amended return. It is used to provide necessary certification and background information supporting the adjustments made on Form 941-SS or 943.

13. Statements for Employees

By January 31, furnish Copies B and C of Forms W-2VI, W-2GU, W-2AS,

or W-2CM to each employee who worked for you during the prior year.

Note: *Employers in the Commonwealth of the Northern Mariana Islands should contact their local tax division for instructions on completing Form W-2CM.*

By the last day of February (or when filing a final return if you make final payments before the end of the year), send your completed forms to the following addresses:

Employers in the U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands must send Copy A of Forms W-2VI, W-2GU, W-2AS, W-2CM, and a **Form W-3SS**, Transmittal of Wage and Tax Statements, to the Social Security Administration, Data Operations Center, 1150 E. Mountain Drive, Wilkes-Barre, PA 18769-0001.

Send Copy 1 of Forms W-2VI, W-2GU, W-2AS, and W-3SS to your local tax department. For more information on Copy 1, contact your local tax department. Employers in the Commonwealth of the Northern Mariana Islands should contact their local tax department for instructions on how to file Copy 1.

Two copies of Form W-3SS are enclosed. If you need more copies, get them from your U.S. Internal Revenue Service representative or Internal Revenue Service Center. Get Forms W-2VI, W-2GU, W-2AS, or W-2CM from your local tax department.

If a Form W-2VI, W-2GU, W-2AS, or W-2CM needs correction after you have sent Copy A to the SSA, use **Form W-2c**, Statement of Corrected Income and Tax Amounts. Furnish employees Copies B and C of Form W-2c. Send Copy A with **Form W-3c**, Transmittal of Corrected Income and Tax Statements, to the Social Security Administration Data Operations Center, and Copy 1 to the local tax department.

If you go out of business during the year, give your employees the forms by the due date of the final Form 941-SS. File the SSA copy within 30 days after that date.

Note: *New magnetic media filing requirements will be in effect for certain employers for returns due February 28, 1997. See Form W-3SS.*

If an employee loses or destroys his or her copies, furnish that employee copies of Form W-2VI,

W-2GU, W-2AS, or W-2CM marked "Reissued Statement." Do not send Copy A of the reissued form to the SSA.

If a form is corrected before you send Copy A, furnish the employee the corrected copies. Mark the original Copy A "Void" in the proper box and send the new Copy A as explained above. For details, see the instructions for the forms.

Fringe benefits.—If you file Form W-2AS, W-2GU, W-2VI, or W-2CM, you must report any taxable fringe benefits on that form. See Form W-3SS for specific reporting instructions.

14. Records You Should Keep

Keep all records of employment taxes for 4 years. These should be available for IRS review.

There is no required format for such records, but they should include your EIN; the amounts and dates of all wage payments (including fringe benefits) and tips reported; the names, addresses, and occupations of employees receiving such payments; their social security numbers; duplicate copies of returns filed; dates of employment; and the dates and amount of deposits made in accordance with section 11.

Agricultural employers.—In addition to the above information, you should keep a record of the name, permanent address, and EIN of each crew leader who furnishes workers to perform farmwork. (See section 2 for information on crew leaders for purposes of social security and Medicare taxes. U.S. Virgin Islands employers, see section 15 for information on crew leaders for purposes of the FUTA tax.)

15. Paying and Depositing Federal Unemployment (FUTA) Tax: U.S. Virgin Islands Employers Only

You must file **Form 940** or **Form 940-EZ**, Employer's Annual Federal Unemployment (FUTA) Tax Return, if you are subject to Federal unemployment tax under the following rules.

In general.—You are subject to Federal unemployment tax on the wages you pay employees who are not farmworkers or household workers if in the current or preceding calendar year:

1. The wages you paid to employees in this category were \$1,500 or more in any calendar quarter, or

2. In each of 20 different calendar weeks, there was at least a part of a day in which you had an employee in this category. The 20 weeks do not have to be consecutive.

Household workers.—You are subject to Federal unemployment tax on the cash wages you pay to household workers if the wages you pay to employees in this category were \$1,000 or more in any calendar quarter of the current or preceding year.

Farmworkers.—You are subject to Federal unemployment tax on the wages you pay to farmworkers if in the current or preceding calendar year:

1. The cash wages you paid for the farm labor was \$20,000 or more in any calendar quarter, or

2. In each of 20 different calendar weeks in the current or preceding calendar year, there was at least 1 day in which you had 10 or more farm employees. The 20 weeks do not have to be consecutive.

In most cases, farmworkers supplied by a crew leader are considered employees of the farm operator for FUTA tax purposes. However, this is not the case if either of the following applies, and the crew leader is not an employee of the farm operator:

1. The crew leader is registered under the Migrant and Seasonal Agricultural Worker Protection Act.

2. Substantially all the workers operate or maintain machines (tractors, harvesters, crop dusting equipment, etc.) provided by the crew leader.

The FUTA tax rate for 1995 and 1996 is 6.2% of the first \$7,000 of wages paid each employee during the calendar year. Only the employer pays the tax. Do not deduct it from employees' wages. Generally, you may take a credit of 5.4% against the FUTA tax for payments to U.S. Virgin Islands unemployment funds. Therefore, your actual tax rate is usually 0.8% (6.2% - 5.4%). However, your credit is reduced if you did not pay all required U.S. Virgin Islands unemployment tax on time. The credit cannot be more than 5.4% of taxable FUTA wages.

Deposit the FUTA tax with an authorized financial institution or FRB that serves your geographical

area. Send a deposit coupon with each payment.

Figure your liability for the FUTA tax quarterly. To determine whether you must make a deposit for any of the first three quarters in 1996, figure your FUTA tax as follows:

Multiply by .008 (0.8%) the part of the first \$7,000 of each employee's yearly wages that you paid during the quarter. If any part of the first \$7,000 paid to employees is exempt from U.S. Virgin Islands unemployment taxes, you may deposit an amount in excess of the .008 rate. If this amount (plus any amount not yet deposited for any earlier quarter of the year) is more than \$100, deposit it during the first month after the quarter. If the result is \$100 or less, add it to the FUTA tax for the next quarter, and do not make a deposit. Make this calculation for each of the first three quarters of the year.

By January 31, file Form 940. Also by January 31, deposit the FUTA tax reportable on the form, minus the amounts deposited for the first three quarters, if the result is more than \$100. If the result is \$100 or less, you may either deposit the tax or pay it with Form 940 by January 31.

If you made deposits of the tax due for the year in full and on time, you may file Form 940 on or before February 10.

Once you have filed Form 940, the IRS will send you a preaddressed form near the end of each calendar year. If you do not get one, ask for one from an IRS office in time to file when due.

16. Sick Pay Reporting

Employer payments of sick pay.—In general, sick pay is any amount you pay, under a plan you take part in, to an employee because of sickness or injury. These amounts are sometimes paid by a third party, such as an insurance company or employees' trust. In either case, these payments are subject to social security, Medicare, and Federal unemployment (FUTA) taxes.

Pub. 15-A explains the employment tax rules that apply to sick pay, disability benefits, and similar payments to employees. Either an employer or a third party, such as an insurance company or an employees' trust, may make the payments.

17. Special Rules for Various Types of Services and Products

The following table summarizes the treatment of special classes of employment and special types of payments. Employers who need more detailed information should consult their Internal Revenue Service representative or see the Employment Tax Regulations.

Special Classes of Employment and Special Types of Payments	Treatment Under Employment Taxes	
	Social Security and Medicare	Federal Unemployment (U.S. Virgin Islands Only)
Agricultural labor:		
1. Service on farm in connection with cultivating soil; raising or harvesting any agricultural or horticultural commodity; the care of livestock, poultry, bees, fur-bearing animals, or wildlife.	Taxable if \$150 or \$2,500 test is met (see section 8).	Taxable if test in section 15 is met.
2. Service in employ of owner or operator of farm, if major part of the services are performed on farm, in management or maintenance, etc., of farm, tools, or equipment, or in salvaging timber, or clearing brush and other debris left by hurricane.	Taxable if \$150 or \$2,500 test is met (see section 8).	Taxable if test in section 15 is met.
3. In connection with the production and harvesting of turpentine and other oleoresinous products.	Taxable if \$150 or \$2,500 test is met (see section 8).	Taxable if test in section 15 is met.
4. Cotton ginning.	Taxable if \$150 or \$2,500 test is met (see section 8).	Taxable if test in section 15 is met.
5. In connection with hatching of poultry, not on a farm.	Taxable (not farmwork).*	Taxable (not farmwork).*
6. In operation or maintenance of ditches, canals, reservoirs, or waterways, not owned or operated for profit, used only for supplying or storing water for farming purposes.	Taxable if \$150 or \$2,500 test is met (see section 8).	Taxable if test in section 15 is met.
7. In processing, packaging, delivering etc., any agricultural or horticultural commodity in its unmanufactured state:		
a. In employ of farm operator.	If operator produced over half of commodity processed, taxable if \$150 or \$2,500 test is met (see section 8); otherwise taxable (not farmwork).*	If employer produced over half of commodity processed, taxable if test in section 15 is met; otherwise taxable (not farmwork).*
b. In employ of unincorporated group of farm operators (never more than 20).	If group produced all commodity processed, taxable if \$150 or \$2,500 test is met (see section 8); otherwise taxable (not farmwork).*	If employer produced over half of commodity processed, taxable if test in section 15 is met; otherwise taxable (not farmwork).*
c. In employ of other groups of farm operators (including cooperative organizations and commercial handlers).	Taxable (not farmwork).*	If employer produced over half of commodity processed, taxable if test in section 15 is met; otherwise taxable (not farmwork).*
8. Handling or processing commodities after delivery to terminal market for commercial canning or freezing.	Taxable (not farmwork).*	Taxable (not farmwork).*
9. Household employees on farm operated for profit.	Taxable in 1996 if paid \$1,000 or more in cash in the calendar year. Exempt if performed by an individual under age 18 during any portion of the calendar year and it is not the principal occupation of the employee. For household services performed by parent in private home of child, see section 9.	Taxable if test in section 15 is met.
10. Service not in the course of employer's trade or business on farm operated for profit. (Cash payments only.)	Taxable if \$150 or \$2,500 test is met (see section 8); unless performed by parent in employ of child.	Taxable only if \$50 or more is paid in a quarter and employee works on 24 or more different days in that quarter or on 24 or more days in preceding quarter.

* Wages for services not considered farmwork are reported on Form 941-SS. Other exemptions may apply. See sections 6 and 12.

Special Classes of Employment and Special Types of Payments	Treatment Under Employment Taxes	
	Social Security and Medicare	Federal Unemployment (U.S. Virgin Islands Only)
Aliens: 1. Resident a. Service performed in U.S.* b. Service performed outside U.S.* 2. Nonresident working in U.S.* a. Workers lawfully admitted under section 101(a)(15)(H)(ii)(a) of the Immigration and Nationality Act on a temporary basis to perform agricultural labor ("H-2(A) workers"). b. Student, scholar, trainee, teacher, etc., as nonimmigrant alien under section 101(a)(15)(F), (J), (M), or (Q) or Philippine resident admitted to Guam under section 101(a)(15)(H) of Immigration and Nationality Act. c. All other nonresidents working in U.S.* 3. Nonresident working on American vessel or aircraft outside U.S.	Same as U.S. citizen; service as crew member of foreign vessel or aircraft exempt if any part is performed outside U.S. Taxable if (1) working for an American employer or (2) an American employer by agreement covers U.S. citizens and residents employed by its foreign affiliates. Exempt. Exempt if service is performed for purpose specified in section 101(a)(15)(F), (J), (H), (M) or (Q) of Immigration and Nationality Act. Same as U.S. citizen; service as crew member of foreign vessel or aircraft exempt if any part performed outside U.S. and employer is not American employer. Taxable if under contract made in U.S., or worker is employed on vessel or aircraft when it touches U.S. port.	Same as U.S. citizen. Exempt unless on or in connection with an American vessel or aircraft and either performed under contract made in U.S., or alien is employed on such vessel or aircraft when it touches U.S. port. Same as U.S. citizen.** Same as U.S. citizen.
Deceased worker's wages: 1. Paid to beneficiary or estate in same calendar year of worker's death. 2. Paid to beneficiary or estate after the year of worker's death.	Taxable. Exempt.	Taxable. Exempt.
Dependent care assistance programs (limited to \$5,000; \$2,500 if married filing separately).	Exempt to the extent it is reasonable to believe that amounts will be excludable from gross income under Internal Revenue Code (IRC) section 129.	
Disabled worker's wages paid after the year in which worker became entitled to disability insurance benefits under the Social Security Act.	Exempt if worker did not perform any service for employer during period for which payment is made.	Taxable.
Domestic service in college clubs, fraternities, and sororities.	Exempt if paid to regular student; also if employee is paid less than \$100 in a year by an income-tax-exempt employer.	Taxable if employer paid cash wages of \$1,000 or more in any calendar quarter in the current or preceding year.
Employee achievement awards.	Exempt to the extent it is reasonable to believe the amounts will be excludable from gross income under IRC section 74(c).	
Family employees: 1. Child employed by parent (or by partnership consisting only of parents). 2. Child employed by parent for domestic work or not in the course of a trade or business. 3. Parent employed by a child. 4. Spouse employed by spouse.	Exempt until age 18. Exempt until age 21. Taxable if in course of the child's business. For household work in private home of child, see section 9. Taxable if in course of spouse's business.	Exempt until age 21. Exempt until age 21. Exempt. Exempt.

* U.S. includes U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.

** **Caution:** At the time this publication was printed, Congress was considering legislation that would exempt this employment from FUTA. See Pub. 553, Highlights of 1995 Tax Changes.

Special Classes of Employment and Special Types of Payments	Treatment Under Employment Taxes	
	Social Security and Medicare	Federal Unemployment (U.S. Virgin Islands Only)
Federal employees: 1. Members of uniformed services; Young Adult Conservation Corps, Job Corps, or National Volunteer Antipoverty Program; Peace Corps volunteers. 2. All others.	Taxable. Taxable if employee is covered by FERS or has a break in service of more than 1 year (unless the break in service was for temporary military or reserve duty). Others generally subject to Medicare tax.	Exempt. Exempt unless worker is a seaman performing services on or in connection with American vessel owned by or chartered to the United States and operated by general agent of Secretary of Commerce.
Fishing and related activities, employment in connection with catching, harvesting, farming, etc.: 1. Salmon or halibut. 2. Other fish, and other aquatic forms of animal and vegetable life. 3. An arrangement with the owner or operator of the boat by which the individual is not paid cash remuneration but receives a share of the boat's catch (or proceeds from the sale of the catch), the share depending on the boat's catch, and operating crew of the boat is normally fewer than 10 individuals.*	Taxable unless c applies. Taxable unless c applies. Exempt.	Taxable unless c applies. Exempt unless on vessel of more than 10 net tons (and c does not apply). Exempt.
Foreign governments and international organizations.	Exempt.	Exempt.
Foreign service by U.S. citizens: 1. As U.S. Government employee. 2. For foreign affiliates of American employers and other private employers.	Same as within U.S. Exempt unless (1) an American employer by agreement covers U.S. citizens employed by its foreign affiliates or (2) U.S. citizen works for American employer.	Exempt. (See also Federal employees.) Exempt unless (1) on American vessel or aircraft and work is performed under contract made in U.S., or worker is employed on vessel when it touches U.S. port, or (2) U.S. citizen works for American employer (except in a contiguous country with which the U.S. has an agreement for unemployment compensation) or in the U.S. Virgin Islands.
Fringe benefits.	Taxable on excess of fair market value of the benefit over the sum of any amount paid for it by the employee, and any amount excludable by law. However, optional special valuation rules may apply.**	
Government employees (other than Federal)	Exempt unless services are covered by section 218 (Social Security Act) agreement.	Exempt.
Group-term life insurance costs.	Generally taxable for cost of premiums that provide more than \$50,000 coverage.	Exempt.
Homeworkers (industrial, cottage-industry): 1. Common law employees. 2. Statutory employees. (See section 4.)	Taxable. Taxable if paid \$100 or more in cash in a year.	Taxable. Exempt.
Hospital interns.	Taxable.	Exempt.
Household workers (domestic service in private homes; farmers, see Agricultural labor on page 12). (Also see Domestic service in college clubs, fraternities, and sororities on page 13.)	Taxable in 1996 if paid \$1,000 or more in cash in the calendar year. Exempt if performed by an individual under age 18 during any portion of the calendar year and it is not the principal occupation of the employee.	Taxable if employer paid cash wages of \$1,000 or more in any calendar quarter in the current or preceding year.
Insurance agents or solicitors: 1. Full-time life insurance salesperson. 2. Other salesperson of life, casualty, etc., insurance.	Generally taxable, regardless of common law. Taxable only if employee under common law.	Exempt if not common law employee or if paid solely by commissions. Exempt if not common law employee or if paid solely by commissions.

* Income derived by Native Americans exercising fishing rights is generally exempt from employment taxes.

** Benefits provided under cafeteria plans may qualify for exclusion from wages for social security, Medicare, and Federal unemployment taxes.

Special Classes of Employment and Special Types of Payments	Treatment Under Employment Taxes	
	Social Security and Medicare	Federal Unemployment (U.S. Virgin Islands Only)
Interest foregone on below-market loans related to compensation and deemed original issue discount. (See IRC section 7872 and related regulations for details.)	Taxable.	Taxable.
Meals and lodging including those furnished at a bargain charge to the employee. (For household employees, agricultural labor, and service not in the course of the employer's trade or business, see Noncash payments below.)	(a) Meals—Taxable unless furnished for employer's convenience and on the employer's premises. For information on the de minimis fringe exclusion, see IRC section 132(e). (b) Lodging—Taxable unless furnished on employer's premises, for the employer's convenience, and as condition of employment.	
Ministers of churches performing duties as such.	Exempt.	Exempt.
Moving expenses reimbursement: 1. Qualified expenses. 2. Nonqualified expenses.	Exempt, unless you have knowledge that the employee deducted the expenses in a prior year. Taxable.	Taxable.
Newspaper carrier under age 18 delivering directly to readers.	Exempt.	Exempt.
Newspaper and magazine vendors buying at fixed prices and retaining excess from sales to customers.	Exempt.	Exempt.
Noncash payments: 1. For household work, agricultural labor, and service not in the course of the employer's trade or business. 2. To certain retail commission salespersons ordinarily paid solely on a cash commission basis.	Exempt. Taxable.	Exempt. Taxable.
Nonprofit organizations: 1. Religious, educational, charitable, etc., organizations described in IRC section 501(c)(3) exempt from income tax under IRC section 501(a). 2. Corporations organized under Act of Congress described in IRC section 501(c)(1). 3. Other organizations exempt under IRC section 501(a) (other than a pension, profit-sharing, or stock bonus plan described in IRC section 401(a)) or under IRC section 521.	Taxable if paid \$100 or more in a year. (See Form 8274 , Certification by Churches and Qualified Church-Controlled Organizations Electing Exemption From Employer Social Security and Medicare Taxes, for election out of social security and Medicare coverage for certain churches and church-controlled organizations.) Taxable if employee is paid \$100 or more in a year unless services excepted by IRC section 3121(b)(5) or (6). Taxable if employee is paid \$100 or more in a year.	Exempt. Taxable if employee is paid \$50 or more in a quarter unless services excepted by IRC section 3306(c)(6). Taxable if employee is paid \$50 or more in a quarter.
Partners: Bona fide members of a partnership	Exempt.	Exempt.
Patients employed by hospitals.	Taxable (exempt for state or local government hospitals).	Exempt.
Religious orders: Members who are instructed by the order to perform services: 1. For the order, agency of the supervising church, or associated institution. 2. For any organization other than those described in 1 above.	Exempt, unless member has taken a vow of poverty and the religious order or its autonomous subdivision irrevocably elects coverage for entire active membership. Taxable.	Exempt. Taxable.

Special Classes of Employment and Special Types of Payments	Treatment Under Employment Taxes	
	Social Security and Medicare	Federal Unemployment (U.S. Virgin Islands Only)
Retirement and pension plans: 1. Employer contributions to a qualified plan. 2. Elective contributions and deferrals to a plan containing a qualified cash or deferred compensation arrangement (e.g., 401(k)). 3. Employer contributions to certain nonqualified deferred compensation plans. 4. Employer contributions to individual retirement accounts under a simplified employee pension (SEP) plan. 5. Employer contributions to IRC section 403(b) annuity contracts. 6. Distributions from qualified retirement and pension plans.	Exempt. Taxable. Taxable.* Exempt, except for amounts contributed under a salary reduction SEP agreement. Taxable if paid through a salary reduction agreement (written or otherwise). Exempt.	Exempt. Taxable. Taxable.* Exempt, except for amounts contributed under a salary reduction SEP agreement. Taxable if paid through a salary reduction agreement (written or otherwise). Exempt.
Salespersons: 1. Common law employees. 2. Statutory employees (referred to in section 4). 3. Statutory nonemployees (qualified real estate agents and direct sellers).	Taxable. Taxable. Exempt. Treated as if self-employed individuals where substantially all payments directly related to sales or other output and services performed as nonemployee specified in written contract. Direct sellers must be in the business of selling consumer products other than in a permanent retail place of business.	Taxable. Taxable.
Scholarships and fellowship grants (includible in income under IRC section 117(c)).	Taxability depends on the nature of the employment and the status of the organization. See Students.	
Severance pay.	Taxable.	Taxable.
Service not in the course of the employer's trade or business, other than on a farm operated for profit or for household employment in private homes.	Taxable if employee is paid \$100 or more in cash in a year.	Taxable only if employee is paid \$50 or more in cash in a quarter and works on 24 or more different days in that quarter or in the preceding quarter.
Sickness or injury payments under: 1. Worker's compensation law. 2. Certain employer plans. 3. No employer plan.	Exempt. { Exempt after end of 6 calendar months after calendar month employee last worked for employer.	Exempt.
Students: 1. Student enrolled and regularly attending classes, performing services for: a. Private school, college, or university. b. Auxiliary nonprofit organization operated for and controlled by school, college, or university. c. Public school, college, or university. 2. Full-time student performing service for academic credit, combining academic instruction with work experience as an integral part of the program. 3. Student nurse performing part-time services for nominal earnings at hospital as incidental part of training. 4. Student employed by organized camps.	Exempt. Exempt unless services are covered by a section 218 (Social Security Act) agreement. Exempt unless services are covered by a section 218 (Social Security Act) agreement. Taxable. Exempt. Taxable.	Exempt. Exempt. Exempt. Exempt unless program was established for or on behalf of an employer or group of employers. Exempt. Exempt.
Supplemental unemployment compensation benefits.	Exempt.	Exempt.
Tips: a. If \$20 or more in a month. b. If less than \$20 in a month.	Taxable. Exempt.	Taxable, for all tips reported in writing to employer. Exempt.
Worker's compensation.	Exempt.	Exempt.

* Taxable when services are performed or when there is no substantial risk of forfeiture of the rights to these amounts, whichever is later.

