



FINANCE & WORK

Payroll Taxes

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Quick Facts...

Medicare and Social Security withholdings are divided equally between the employee and the employer.

Part-time employees are taxed at the same rate as full-time employees.

Colorado payroll withholding is done if: the employee pays payroll taxes to the federal government; and, if he/she is a Colorado resident or nonresident alien working in Colorado.

Depending upon the amount of payroll taxes withheld during the previous 12-month period, Colorado employers may remit these taxes on a quarterly, monthly, or weekly basis.

Employers are generally required to withhold federal income, Social Security, and Medicare taxes from the wages of their employees. Self-employment taxes must be paid on self-employed profits.

All cash wages paid to employees are subject to Social Security and Medicare taxes if: the employer paid an employee \$150 or more in cash wages during the year; or the employer paid cash and noncash wages of \$2,500 or more during the year to all employees.

Noncash wages, such as lodging and clothing, are not subject to Social Security and Medicare taxes provided the substance of the transaction is not a cash payment.

If cash wages are subject to Social Security and Medicare taxes, they are also subject to income tax withholding. In addition, noncash wages are subject to income tax withholding.

Supplemental Wages

Supplemental wages are compensation paid to employees in addition to their regular wages. Such wages are subject to Social Security, Medicare, and income tax withholdings.

If income taxes are withheld from an employee's regular wages, income taxes can be withheld from his/her supplemental wages: at 28 percent of each payment of supplemental wages; or by adding the supplemental and regular wages for the recent payroll period.

Next, the income tax withholding is calculated as if the total was a single payment. Subtract the tax already withheld from the regular wages, and withhold the remaining tax from the supplemental wages. If there were no income taxes withheld from an employee's regular wages, add the supplemental and regular wages for the recent payroll period. Then calculate the income tax withholding as if the total were a single payment. Subtract the tax already withheld from the regular wages, and withhold the remaining tax from the supplemental wages.

Federal Payroll Taxes

To determine the amount necessary to withhold from each employee's paycheck, an employer needs to have a signed Form W-4 from each employee. If the employee has not given a signed W-4 to his/her employer, the employer is required to deduct the amount of taxes paid as if there were no dependents.

This Form W-4 remains in effect until it's updated by another Form W-4. At that time the employer deducts taxes based on the updated information no later than the start of the first payroll period ending on or after the 30th day from the date you received the replacement Form W-4.

The amount of income tax withheld is based solely on the employee's claimed marital status and number of dependents. Therefore, a lump sum deduction or a percentage deduction is not allowed. However, an employee may choose to have a greater amount of money withheld and/or claim fewer withholding allowances if they so wish.

An employee may be exempt from paying income taxes if they had no tax liability in the previous year and expect none in the present year. However, everyone must pay Social Security and Medicare taxes.

Non-alien resident Form W-4s are handled differently in most cases. When nonresident aliens complete their Form W-4s, they must:

1. not claim exemption from income tax withholding.
2. request withholding as if they are single, regardless of their actual marital status.
3. claim only one allowance, unless the nonresident alien is a resident of Canada, Mexico, Japan, or Korea. In that case, the alien may claim more than one allowance.
4. request an additional income tax withholding amount, depending on the payroll period, according to a predetermined table of withholding amounts.

Withholding may also occur for Social Security and Medicare taxes. When contributions to these funds are required, the employee and the employer must make equal contributions. For Social Security, the employee and the employer must each contribute 6.2 percent of the employee's taxable wages (a total of 12.4 percent). In 2001, this tax was limited to \$80,400. Any wage greater than \$80,400 is exempt from Social Security taxation. The tax rate on Medicare is 1.45 percent for both the employer and the employee (a total of 2.9 percent). Unlike Social Security withholdings, there is no upper limit on the taxable wages applied to Medicare.

For income tax withholding and Social Security, Medicare, and federal unemployment (FUTA) tax purposes, there are no differences among full-time employees, part-time employees, and employees hired for short periods. Each person gets taxed as if they were full-time employees.

Colorado State Payroll Taxes

Employers are required to remit state payroll taxes if the wages and other income paid are subject to federal payroll tax withholdings and if employees are either Colorado residents (doing work in or out of Colorado) or non-resident aliens working in Colorado. Colorado does not have any additional forms for withholding. The information supplied on the federal Form W-4 is forwarded from the Internal Revenue Service to the Colorado Department of Revenue.

The frequency of filing payroll taxes depends on the level of payroll taxes paid in the previous 12-month period. If the taxes paid during that time were less than \$7,000, the employer only needs to file on a quarterly basis. If the payroll taxes withheld during that time period were between \$7,000 and \$50,000, monthly reporting is necessary. If the previous 12-month total taxes withheld were greater than \$50,000, then the employer must remit the withholdings on a weekly basis, and do so by the third business day after the Friday of the withholding period.

Seasonal employers do not need to file during times of the year when an employee does not work, but they must file by the 15th day of the month following each month he/she does work. If the remittances are on a quarterly or monthly basis, they may be paid using a coupon supplied by the Colorado Department of Revenue. If the remittances are weekly in nature, the funds must be transferred electronically to the state.

Reporting and Paying Taxes

Employers are liable for the withholding and payment of Social Security, Medicare, and income taxes regardless of whether or not they are collected from employees. If, for example, the employer withholds less than the correct tax from an employee's wages, the employer is still liable for the full amount.

Employment taxes for farm workers must be treated separately from the employment taxes of nonfarm workers. Form 943 must be filed by employers of farm workers to reconcile employment taxes with taxes deposited. Form 941 is used for nonfarm work employment taxes.

Summary

There are three primary deductions that make up payroll taxes. The first is based on an employee's marital status and number of dependents. The second is for Social Security Insurance where both the employer and employee each must contribute 6.2 percent of the gross employee wages (a total of 12.4 percent). Any wages above \$80,400 is excluded from further contribution. The third payroll deduction is for Medicare. Both the employer and the employee must contribute 1.45 percent of the gross employee wages (a total of 2.9 percent) to the fund and there is no cap on the amount of wages to be taxed.

In Colorado, employers are responsible for paying payroll taxes on any worker that is either a Colorado resident (working in or out of Colorado) or is a nonresident alien working in Colorado. Payroll taxes must be filed on a quarterly, monthly, or weekly basis depending on the amount of taxes paid in the previous 12-month period.

For More Information

- www.irs.gov/forms_pubs/pubs/p1512.htm - Federal Income Tax Withholding rules.
- www.revenue.state.co.us/fyi/html/withld05.html - Colorado withholding regulations for employees.

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