

UNDERSTANDING PAYROLL TAXES

Whether you're hiring your first employee or already have a few, understanding payroll taxes is a must.

FICA & FUTA

FICA stands for Federal Insurance Contributions Act and it funds the Social Security and Medicare programs. It's funded equally by the employer and employee. For 2021, each pays Social Security tax of 6.2% on the first \$142,800 of an employee's wages and 1.45% on all wages. Each year, the wage base (the maximum earnings subject to Social Security tax) is adjusted for inflation. Self-employed taxpayers will pay both the employer and employee portion but they'll receive a deduction on their tax return for the employer portion.

Federal unemployment tax (FUTA) is paid by the employer and provides benefits to workers who become unemployed through no fault of their own. In 2021, the tax rate is 6% on the first \$7,000 of each employee's salary. Credits for paying state unemployment tax on time are available and can reduce this rate significantly.

THERE'S MORE

Some employees will have to pay the Additional Medicare tax depending on their tax filing status and their taxable income. Employers need to withhold this tax from paychecks for employees who earn more than \$200,000 a year. The tax rate for 2021 is 0.9% of the excess wages.



GET FIT

Federal income tax (FIT) is taken out of an employee's pay to cover their annual tax liability. How much taken out is based on information from the employee's Form W-4, which they should fill out when they start a new job or anytime their circumstances change that might impact how much tax they owe.

FILE & PAY

The most common payment frequencies are monthly or semi-weekly. However, quarterly or annual payments are allowed for FUTA.

Quarterly payroll tax returns are needed for FICA, FIT, and the Additional Medicare tax. FUTA returns will be filed quarterly or annually, depending on your payment frequency.

IN A STATE

Payroll taxes extend beyond the federal level to the state level. Depending on your state, you may have to withhold state income tax from employees' paychecks. And all states have an unemployment tax that employers pay. Some cities have payroll taxes too.



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