Withholding Payroll Taxes during Payroll Processing by Suree Martin

Article published on December 23rd 2011 | Business

Some online payroll service providers have started providing payroll tax-filing solutions to help small businesses avoid IRS notices and penalties due to late payment, non-payment and inaccurate payment. As the payroll tax penalties is huge, it is important to get it right the first time to avoid unfortunate circumstances.

While payroll processing, every employer is supposed to withhold payroll taxes from the employees' pay check. Let's discuss payroll taxes one-by-one:

1. W-4 Form: Whenever you hire an employee, you have to get him filled a W-4 form. This form helps in determining the amount you need to withhold for federal and state income tax.

2. FICA Taxes: FICA stands for Federal Insurance Contributions Act that covers social security and Medicare taxes in which an employer has to pay a matching amount of FICA taxes for each employee.

A. Social Security Taxes: The employer and employee must pay social security taxes of about 12.4% of gross compensation. This means employer is supposed to withhold 6.2% of employeesâ€™ wages for the entire year.

B. Medicare Taxes: Along with social security taxes, the employer must withhold 1.4% of employees' wages during a year. The same amount must match with employerâ€™s contribution, which means 2.9% is paid annually under Medicare taxes.

3. FUTA Taxes: FUTA stands for Federal Unemployment Taxes wherein the taxes must be equal to 6.2% of gross compensation. When the employeeâ€™s wages reach $7,000, then they don't have to pay FUTA tax. The 6.2% of gross compensation can reduce to only 0.8% when the employer can take credit of about 5.4% of compensation for the SUTA.

4. SUTA Taxes: The State Unemployment Taxes (SUTA) varies from state-to-state; therefore, it is important to find out the percentage from the state tax department. Generally, the SUTA tax starts from a minimum amount but is reduced if you have filed any unemployment claims.

All these payroll taxes involve a lot of complex calculations that require experience and expertise of payroll experts to make it accurate and systematic. Therefore, you must look for an online payroll company that includes payroll tax-filing solutions as a part of their payroll processing plan.

By hiring cost-effective services, you will not only relieve yourself from complex calculations but will also safeguard from IRS notices and penalties. The payroll company will automatically upgrade their payroll system with changes made in the payroll tax rules and will calculate the amount accordingly. This will help you to get the right amount to be paid to the Federal, State and Local government.

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Article Keywords:
Payroll,Payroll Services,Payroll Taxes,Online Payroll,Online Payroll Service,Payroll Taxes,Payroll Calculations,Payroll Systems