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## TIMELY IRS TAX DEPOSITS

### THE BASICS

**All employers, including churches and non-profits, are required to pay/deposit IRS "941 taxes"** (Federal income tax withholding plus both employee and employer shares of FICA/Medicare taxes) **in accordance with the following tax deposit frequency schedules:**

- Employers who accumulate \$50,000 or less of Federal "941" payroll taxes during the previous July 1 - June 30 year (the "lookback period") are required to pay each month's 941 taxes by the 15th day of the following month;
- Employers who accumulate over \$50,000 of Federal "941" tax during their previous one year "lookback period" must pay their 941 taxes on a so called "semi-weekly" frequency, which ranges from 3-7 business days depending on the employer's payday.

**NOTE - An employer with a few highly compensated/ taxed employees may be required to pay their 941 taxes more frequently than an employer with a large number of lower-paid employees. The amounts of the tax obligations, not the number of employees, dictates an employer's tax deposit frequency.**

### WHY DOES IT MATTER?

The IRS imposes civil penalties/fines on employers who do not pay their 941 taxes timely. These penalty amounts are very high as a ratio of the tax amounts paid late -- and they are in addition to interest charges assessed on the late 941 tax payments. The penalty amounts are also non-deductible for income tax purposes.

**Pay your "941" taxes on time!**

### CAN MY TAX DEPOSIT FREQUENCY CHANGE?

**The short answer is "yes".** Remember, an employer's 941 tax deposit frequency is determined every January based on total 941 taxes paid during the previous "lookback period" of July 1 - June 30. As such, a growing business/organization with increasing 941 taxes may be required to switch from a monthly "15th filer" to a more frequent "semi-weekly" tax deposit frequency. An employer which has declining payroll taxes may be able to only pay the 15th of each month instead of semi-weekly.

**NOTE - An employer must calculate/monitor their 941 tax payment frequency each "lookback" year and use the correct tax payment frequency with January's first payroll.**

## **WILL THE IRS TELL ME TO CHANGE?**

**Don't bet on it.** The IRS makes their own calculations and sends out "courtesy letters" notifying employers of a change in their 941 tax deposit frequency. However, **it is the employer's responsibility to determine their 941 tax payment frequency**, and not receiving a "courtesy letter" is not a defense for paying taxes late -- nor does the lack of the IRS "courtesy letter" remove the financial penalty for late tax payments.

**NOTE - Do not rely on the IRS to notify you of a change in your tax payment frequency. Make your own calculations before January of each year.**

## **SPECIAL RULE FOR \$100,000 OF 941 TAXES**

Regardless of your normal 941 tax deposit frequency, every employer who accumulates \$100,000 or more of unremitted Federal 941 taxes must deposit all taxes owed the "next day" after they hit \$100,000. Penalties apply if an employer misses this "next day" \$100,000 rule.

**NOTE - Employers who pay large bonuses may "hit" \$100,000 or more in 941 taxes and be required to pay all 941 taxes the "next day" after payday.** This often occurs in December when employee-owners of "S" corporations are "catching up" on their projected Federal income tax obligations on "S" corporation profits.

## **WHO IS MOST VULNERABLE TO LATE 941 TAX PAYMENT PENALTIES?**

Smaller employers who are growing their employee count and have increasing 941 tax obligations will reach a point in which they must change from a monthly "by the 15th" filer to the more frequent "semi-weekly" tax frequency, based on accumulating over \$50,000 in 941 tax obligations in their preceding "lookbacks" July 1 - June 30 year. These employers must deposit taxes more quickly starting in January. The IRS will not "catch" the "late" 941 tax payments until at least 6 months of late tax payments -- which results in 6 months of late tax deposit penalties and interest.

**NOTE - If you are now a "15th filer" make your calculations now to determine your 2013 tax payment frequency!**

## **HOW CAN ACCUPAY HELP?**

AccuPay's CPP/CPA staff are now calculating each of our client's accumulated 941 taxes for their July 1, 2011 - June 30, 2012 "lookback periods". We will adjust our clients 941 tax deposit frequencies for January, 2013 based on these calculations.

**NOTE - If you are an AccuPay "TaxPay" client (means we collect and pay our your payroll taxes), you do not need to make any calculations -- we are already calculating your frequency status for 2013.**

## **IN CONCLUSION**

**Employers need to calculate their 941 tax payment frequency now for January, 2013 payrolls.** This is especially important for smaller employers who are "used" to paying taxes the 15th of each month -- Tax penalties are non-deductible and avoidable wastes of your hard-earned dollars.

AccuPay's payroll staff are very familiar with these tax deposit rules. **Do not hesitate to call us at 885-7600 for help!**



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