

Doron F. Eghbali Business Law

What Are Employment Taxes for Business Owners?

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Small business owners aside from great responsibilities of managing and operating their business, have the additional responsibility of paying employment taxes. In fact, if you are an employer with employees, you are responsible for several federal, state and local taxes. Here is a useful guide for small business employers.

1. FEDERAL INCOME TAX WITHHOLDING

a. Employment Identification Number (EIN)

Employers must have a Federal Employment Identification Number (EIN). You could go [HERE](#) to apply and get your EIN immediately upon completion of Form SS-4.

b. Social Security and Medicare Taxes

Generally, businesses must withhold federal income tax from employee's wages. Business owner withholds some of the wages and contributes a matching amount.

To determine how much to withhold:

- Use employee's [IRS Form W-4](#).
- Use methods delineated in [IRS Publication 15](#).
- Use *Employer's Supplemental Tax Guide*, [IRS Publication 15-A](#).

Social Security benefits are used for:

- People who have already retired.
- People who have become disabled.
- Dependents of beneficiaries. And,
- Survivors of deceased workers.

Medicare is for people 65 years of age or older or people with disabilities. Medicare has two parts:

- **PART A:** Hospital insurance that helps pay for inpatient hospital care some follow-up services.
- **PART B:** Medical insurance that helps pay for doctor's services, outpatient hospital care and other medical services.

c. Form to Report Federal Income Taxes/Social Security and Medicare Taxes

- [IRS Form 941](#), *Employer's Quarterly Federal Income Tax Return*.

2. FEDERAL UNEMPLOYMENT TAXES

The Federal Unemployment Tax is part of the Federal Unemployment Tax Act (FUTA). It pays unemployment compensation to workers who lose their jobs.

Note these important points:

- Federal unemployment tax is a separate tax from Social Security, Medicare and withheld income tax.
- Employer pays the unemployment tax from its own funds.
- Employees DO NOT pay such taxes or have it withheld from their wages.
- [IRS Form 940](#) is generally the form to fill out for unemployment taxes.

DEPOSITING TAXES

In general, employers are required to deposit income tax withheld and both the employer and employee Social Security and Medicare Taxes by mailing a check, money order, or cash to an authorized depository.

However, some employers are required to deposit their applicable taxes by using Electronic Federal Tax Payment System (EFTPS).

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