TRYITEXERCISE 14

Les Roberts, a self-employed commercial artist, had total net earnings of $60,000 last year. What was the amount of the social security and Medicare taxes Les was required to send the IRS last year?

CHECK YOUR ANSWERS WITH THE SOLUTIONS ON PAGE 299.

9-9

COMPUTING THE AMOUNT OF STATE UNEMPLOYMENT TAX (SUTA) AND FEDERAL UNEMPLOYMENT TAX (FUTA)

Federal Unemployment Tax Act (FUTA) A federal tax that is paid by employers for each employee to provide unemployment compensation to workers who have lost their jobs.

State Unemployment Tax Act (SUTA) A state tax that is paid by employers for each employee to provide unemployment compensation to workers who have lost their jobs.

The **Federal Unemployment Tax Act (FUTA)**, together with state unemployment systems, provides for payments of unemployment compensation to workers who have lost their jobs. Most employers are responsible for both a federal and a state unemployment tax.

In 2010, the FUTA tax was 6.2% of the first $7,000 of wages paid to each employee during the year. Generally, an employer can take a credit against the FUTA tax for amounts paid into state unemployment funds. These state taxes are commonly known as the **State Unemployment Tax Act (SUTA)**. This credit cannot be more than 5.4% of the first $7,000 of employees' taxable wages.

SUTA tax rates vary from state to state according to the employment record of the company. These merit-rating systems found in many states provide significant SUTA tax savings to companies with good employment records.

For companies with full and timely payments to the state unemployment system, the FUTA tax rate used in this chapter will be .8% (6.2% FUTA rate − 5.4% SUTA credit).

EXAMPLE15 CALCULATING SUTA AND FUTA TAXES

Uniphase Industries, Inc., had a total payroll of $50,000 last month. Uniphase pays a SUTA tax rate of 5.4% and a FUTA rate of 6.2% less the SUTA credit. If none of the employees had reached the $7,000 wage base, what is the amount of SUTA and FUTA tax the company must pay?

SOLUTIONSTRATEGY

To calculate the SUTA and FUTA taxes, apply the appropriate tax rates to the gross earnings subject to the tax, in this case, all the gross earnings.

$$\text{SUTA tax} = \text{Gross earnings} \times 5.4\%$$
$$\text{SUTA tax} = 50{,}000 \times .054 = \underline{\underline{\$2{,}700}}$$

The FUTA tax rate will be .8%. Remember, it is actually 6.2% less the 5.4% credit.

$$\text{FUTA tax} = \text{Gross earnings} \times .8\%$$
$$\text{FUTA tax} = 50{,}000 \times .008 = \underline{\underline{\$400}}$$

TRYITEXERCISE 15

Sunshine Catering had a total payroll of $10,000 last month. Sunshine pays a SUTA tax rate of 5.4% and a FUTA rate of 6.2% less the SUTA credit. If none of the employees had reached the $7,000 wage base, what is the amount of SUTA and FUTA tax the company must pay?

CHECK YOUR ANSWERS WITH THE SOLUTIONS ON PAGE 299

TRY IT EXERCISE 16

Dynamo Productions employs 250 workers with a gross payroll of $123,400 per week. Fringe benefits are 5% of gross payroll for sick days and holiday leave, 8% for health insurance, and $12.40 per employee for dental insurance.

a. What is the total weekly cost of fringe benefits for Dynamo?
b. What percent of payroll does this represent?
c. What is the cost of these fringe benefits to the company for a year?

CHECK YOUR ANSWERS WITH THE SOLUTIONS ON PAGE 299.

9-11 CALCULATING QUARTERLY ESTIMATED TAX FOR SELF-EMPLOYED PERSONS

By IRS rules, you must pay self-employment tax if you had net earnings of $400 or mo as a self-employed person. This is income that is not subject to withholding tax. Quarter estimated tax is the method used to pay tax on these earnings. You may pay all of your est mated tax by April or in four equal amounts: in April, June, September, and January of th following year.

To calculate the quarterly estimated tax of a self-employed person, we divide the tot of social security, Medicare, and income tax by 4. (There are 4 quarters in a year.) Intern Revenue Service form 1040 ES, Quarterly Estimated Tax Payment Voucher, Exhibit 9-5, used to file this tax with the IRS each quarter.

$$\textbf{Quarterly estimated tax} = \frac{\textbf{Social security} + \textbf{Medicare} + \textbf{Income tax}}{\textbf{4}}$$

EXHIBIT 9-5 Quarterly Estimated Tax Payment Voucher

Form **1040-ES**
Department of the Treasury
Internal Revenue Service

20XX Payment Voucher 4

OMB No. 1545-0087

Calendar year—Due Jan. 15,

File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to the **"United States Treasury."** Write your social security number and "20XX Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.

Amount of estimated tax you are paying by check or money order. $

Type or print			
	Your first name and initial	Your last name	Your social security number
	If joint payment, complete for spouse Spouse's first name and initial	Spouse's last name	Spouse's social security number
	Address (number, street, and apt. no.)		
	City, state, and ZIP code (If a foreign address, enter city, province or state, postal code, and country.)		

For Privacy Act and Paperwork Reduction Act Notice, see instructions on page 5.

Page 6

EXAMPLE 17 CALCULATING QUARTERLY ESTIMATED TAX FOR SELF-EMPLOYED PERSONS

Ben Qualls is a self-employed marketing consultant. His estimated annual earnings this year are $110,000. His social security tax rate is 12.4% up to the wage base, Medicare is 2.9%, and his estimated federal income tax rate is 18%. How much estimated tax must he send to the IRS each quarter?

SOLUTION STRATEGY

Note that Ben's salary is above the social security wage base limit.

Social security $= 106{,}800 \times .124 = \$13{,}243.20$

Medicare $= 110{,}000 \times .029 = \$3{,}190.00$

Income tax $= 110{,}000 \times .18 = \$19{,}800.00$

$$\text{Quarterly estimated tax} = \frac{\text{Social security} + \text{Medicare} + \text{Income tax}}{4}$$

$$\text{Quarterly estimated tax} = \frac{13{,}243.20 + 3{,}190.00 + 19{,}800.00}{4} = \frac{36{,}233.20}{4} = \underline{\underline{\$9{,}058.30}}$$

TRY IT EXERCISE 17

Howard Lockwood is a self-employed freelance editor and project director for a large publishing company. His annual salary this year is estimated to be $120,000 with a federal income tax rate of 20%. What is the amount of estimated tax Howard must send to the IRS each quarter?

CHECK YOUR ANSWER WITH THE SOLUTION ON PAGE 299.

DOLLARS AND SENSE

You may use your American Express card, Discover card, MasterCard, or debit card to make estimated tax payments. Call toll free or access by Internet one of the service providers listed below and follow the instructions. Each provider will charge a convenience fee based on the amount you are paying.

Official Payments Corporation
1-800-2PAY-TAX (1-800-272-9829)
www.officialpayments.com/fed

Link2GovCorporation
1-888-PAY1040 (1-888-729-1040)
www.PAY1040.com

REVIEW EXERCISES — SECTION III — 9

1. Westside Auto Supply has 8 delivery truck drivers, each with gross earnings of $570 per week.

   a. What are the total social security and Medicare taxes that should be withheld from these employees' paychecks each week?

   $570 \times 8 = \$4{,}560$ Gross earnings per week

   $4{,}560 \times .062 = \underline{\underline{\$282.72}}$ Total social security

   $4{,}560 \times .0145 = \underline{\underline{\$66.12}}$ Total Medicare

   b. What is the employer's share of these taxes for these employees for the first quarter of the year?

   $282.72 \times 13 = \underline{\underline{\$3{,}675.36}}$ Social security for the first quarter

   $66.12 \times 13 = \underline{\underline{\$859.56}}$ Medicare for the first quarter

2. Fandango Furniture Manufacturing, Inc., has 40 employees on the assembly line, each with gross earnings of $325 per week.

   a. What are the total social security and Medicare taxes that should be withheld from the employees' paychecks each week?

   b. **What is the employer's share of these taxes for the first quarter of the year for these employees?**

3. Arrow Asphalt & Paving Company has 24 employees, 15 with gross earnings of $345 per week and nine with gross earnings of $385 per week. What is the total social security and Medicare tax the company must send to the Internal Revenue Service for the first quarter of the year?

JUMP START WWW

4. What are the social security and Medicare taxes due on gross earnings of $53,200 per year for Tricia Marvel, a self-employed commercial artist?

$53{,}200 \times .124 = \underline{\underline{\$6{,}596.80}}$ Social security

$53{,}200 \times .029 = \underline{\underline{\$1{,}542.80}}$ Medicare

EXCEL 1

5. What are the social security and Medicare taxes due on gross earnings of $42,600 per year for a self-employed person?

EXCEL 2

6. Lee Sutherlin is a self-employed electrical consultant. He estimates his annual net earnings at $38,700. How much social security and Medicare must he pay this year?

JUMP START WWW

7. Barry Michaels earns $36,500 per year as the housewares manager at the Home Design Center.

a. If the SUTA tax rate is 5.4% of the first $7,000 earned each year, how much SUTA tax must the company pay each year for Barry?

$7{,}000 \times .054 = \underline{\underline{\$378}}$ SUTA annually

b. If the FUTA tax rate is 6.2% of the first $7,000 earned in a year minus the SUTA tax paid, how much FUTA tax must the company pay each year for Barry?

$7{,}000 \times .008 = \underline{\underline{\$56}}$ FUTA annually

8. Dave O'Bannon earns $41,450 annually as a line supervisor for Redwood Manufacturers.

a. If the SUTA tax rate is 5.4% of the first $7,000 earned in a year, how much SUTA tax must Redwood pay each year for Dave?

b. If the FUTA tax rate is 6.2% of the first $7,000 earned in a year minus the SUTA tax paid, how much FUTA tax must the company pay each year for Dave?

9. Tanya Willis worked part time last year as a cashier in a Safeway Supermarket. Her total gross earnings were $6,443.

a. How much SUTA tax must the supermarket pay to the state for Tanya?

b. How much FUTA tax must be paid for her?

10. Amazon Appliance Company has three installers. Larry earns $355 per week, Curly earns $460 per week, and Moe earns $585 per week. The company's SUTA rate is 5.4%, and the FUTA rate is 6.2% minus the SUTA. As usual, these taxes are paid on the first $7,000 of each employee's earnings.

a. How much SUTA and FUTA tax does Amazon owe for the first quarter of the year?

b. How much SUTA and FUTA tax does Amazon owe for the second quarter of the year?

11. Jiffy Janitorial Service employs 48 workers and has a gross payroll of $25,200 per week. Fringe benefits are 6.4% for sick days and holiday leave, 5.8% for health and hospital insurance, and $14.50 per employee per week for uniform allowance.

a. What is the total weekly cost of fringe benefits for Jiffy?

$25{,}200 \times .064 = \$1{,}612.80$

$25{,}200 \times .058 = 1{,}461.60$

$48 \times 14.50 = 696.00$

$\$3{,}770.40$

b. What percent of payroll does this represent?

$$R = \frac{P}{B} = \frac{3{,}770.40}{25{,}200.00} = .1496 = 15\%$$

c. What is Jiffy's annual cost of fringe benefits?

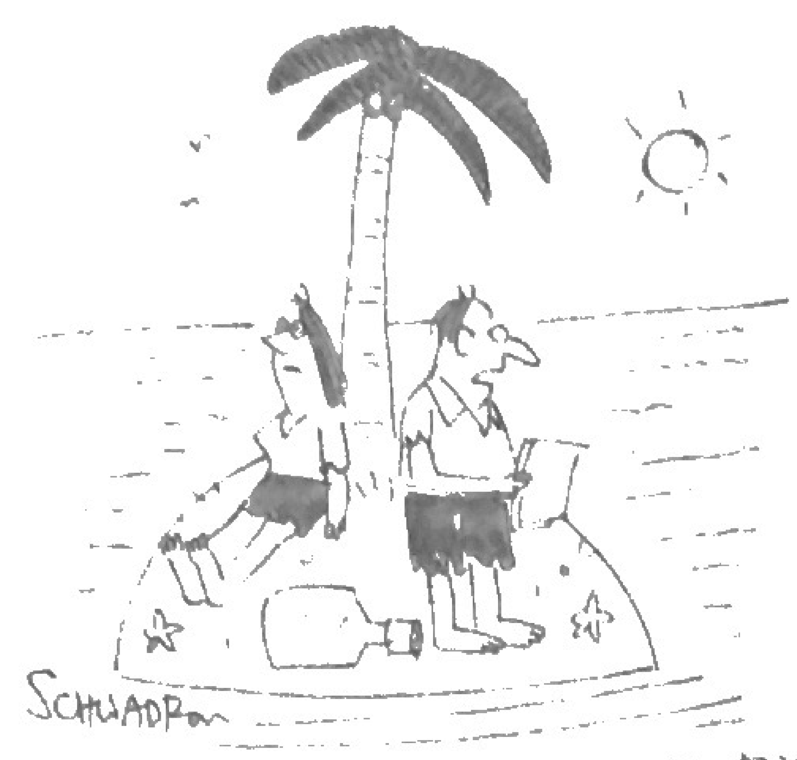
$3{,}770.40 \times 52 = \$196{,}060.80$ Annual cost of fringe benefits

12. North Beach Limousine Service employs 166 workers and has a gross payroll of $154,330 per week. Fringe benefits are $4\frac{1}{2}\%$ of gross payroll for sick days and maternity leave, 7.4% for health insurance, 3.1% for the retirement fund, and $26.70 per employee per week for a stock purchase plan.

a. What is the total weekly cost of fringe benefits for the company?

b. What percent of payroll does this represent? Round to the nearest tenth of a percent.

c. What is the company's annual cost of fringe benefits?



"IT CONTAINS QUARTERLY ESTIMATED TAX FORMS FROM THE I.R.S."

Harley Schwadron/Cartoon Stock

13. Marc Batchelor, a self-employed sales consultant, has estimated annual earnings of \$300,000 this year. His social security tax rate is 12.4% up to the wage base, Medicare is 2.9%, and his federal income tax rate is 24%.

   a. How much estimated tax must Marc send to the IRS each quarter?

   b. What form should he use?

BUSINESS DECISION: NEW FRINGE BENEFITS

14. You are the Human Resource Manager for Sunlink International, a cellular phone company with 800 employees. Top management has asked you to implement three additional fringe benefits that were negotiated with employee representatives and agreed upon by a majority of the employees. These include group term life insurance, a group legal services plan, and a wellness center.

    The life insurance is estimated to cost \$260 per employee per quarter. The legal plan will cost \$156 semiannually per employee. The company will contribute 40% to the life insurance premium and 75% to the cost of the legal services plan. The employees will pay the balance through payroll deductions from their biweekly paychecks. In addition, they will be charged $\frac{1}{4}$% of their gross earnings per paycheck for maintaining the wellness center. The company will pay the initial cost of \$500,000 to build the center. This expense will be spread over 5 years.

    a. What total amount should be deducted *per paycheck* for these new fringe benefits for an employee earning \$41,600 per year?

    b. What is the total *annual* cost of the new fringe benefits to Sunlink?

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Human Resource managers handle or oversee all aspects of human resources work. Typical areas of responsibility include unemployment compensation, fringe benefits, training, and employee relations. They held about 904,900 jobs in 2008, with median annual earnings of \$96,130. The middle 50% earned between \$73,480 and \$126,050.

CHAPTER FORMULAS

Hourly Wages

Regular pay = Hourly rate × Regular hours worked

Overtime pay = Hourly rate × Overtime factor × Overtime hours worked

Total gross pay = Regular pay + Overtime pay

Piecework

Total gross pay = Output quantity × Rate per unit

Commission

Total gross pay = Total sales × Commission rate

Payroll Deductions

Total deductions = Social security + Medicare + Income tax + Voluntary deductions

Net pay = Gross pay − Total deductions

Fringe Benefits

$$\text{Fringe benefit percent} = \frac{\text{Total fringe benefits}}{\text{Gross payroll}}$$

Quarterly Estimated Tax

$$\text{Quarterly estimated tax} = \frac{\text{Social security} + \text{Medicare} + \text{Income tax}}{4}$$

CHAPTER SUMMARY

Section I: Employee's Gross Earnings and Incentive Pay Plans

Topic	Important Concepts	Illustrative Examples
Prorating Annual Salary to Various Pay Periods **Performance Objective 9-1, Page 266**	Salaried employees are most commonly paid based on one of the following pay schedules: *Weekly:* 52 paychecks per year Annual salary ÷ 52 *Biweekly:* 26 paychecks per year Annual salary ÷ 26 *Semimonthly:* 24 paychecks per year Annual salary ÷ 24 *Monthly:* 12 paychecks per year Annual salary ÷ 12	What are the gross earnings of an employee with an annual salary of $40,000 based on weekly, biweekly, semimonthly, and monthly pay schedules? Weekly $= \frac{40{,}000}{52} = \$769.23$ Biweekly $= \frac{40{,}000}{26} = \$1{,}538.46$ Semimonthly $= \frac{40{,}000}{24} = \$1{,}666.67$ Monthly $= \frac{40{,}000}{12} = \$3{,}333.33$
Calculating Gross Pay by Regular Hourly Wages and Overtime **Performance Objective 9-2, Page 267**	An hourly wage is the amount an employee is paid for each hour worked. Regular time specifies that a standard work week is 40 hours. Overtime amounting to at least time-and-a-half must be paid for all hours over 40. Some employers pay double time for weekend, holiday, and midnight shifts. **Regular pay = Hourly rate × Hours worked** **Overtime pay = Hourly rate × Overtime factor × Hours worked** **Total gross pay = Regular pay + Overtime pay**	Sami Brady earns $9.50 per hour as a supervisor in a plant. If her overtime rate is time-and-a-half and holidays are double time, what is Sami's total gross pay for working 49 hours last week, including 4 holiday hours? Regular pay = 9.50 × 40 = <u>$380.00</u> Time-and-a-half pay = 9.50 × 1.5 × 5 = <u>$71.25</u> Double-time pay = 9.50 × 2 × 4 = $76.00 Total gross pay = 380.00 + 71.25 + 76.00 = $527.25