



# Current Report

Division of Agricultural Sciences and Natural Resources • Oklahoma State University

## Employer Taxes / Withholding

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**Note:** This publication is intended to provide general information about legal issues. It should not be cited or relied upon as legal authority. State laws vary and no attempt is made to discuss laws of states other than Oklahoma. For advice on how these issues might apply to your individual situation, you should consult an attorney.

Farmers who employ full or part-time help must apply for an employment identification number and may be obligated to pay Social Security, Medicare, and unemployment taxes, as well as withhold income taxes. Appendix 1 summarizes the requirements employers face with respect to employer taxes and withholding, and the details are described in the following paragraphs.

### What are employer taxes?

Employer taxes are the share of Social Security, Medicare, and unemployment taxes an employer must pay for each employee. The employer and employee each pay an equal share of the Social Security and Medicare taxes; the employer pays his/her share and withholds the employee's share from wages earned. Employers pay unemployment taxes for their employees out-of-pocket, not by withholding from the employee's wages.

You can obtain many of the forms you will need from the Internal Revenue Service (IRS) by calling 1-800-TAX-FORM (1-800-829-3676), or by visiting the IRS web-site at [www.irs.ustreas.gov](http://www.irs.ustreas.gov).

### Do I need to pay Social Security, Medicare, and unemployment taxes for my agricultural employees?

You need to pay Social Security and Medicare taxes for an employee if either of these two conditions are met:

- You paid the employee \$150 or more in cash wages during the year. Cash wages include checks, money orders, or any form of money or cash. (Non-cash wages include food, lodging, clothing, transportation, commodities, and other goods, and are not subject to employment taxes.)
- The total amount you paid to all your agricultural employees during the year was \$2,500 or more (that is, your payroll for the year totaled \$2,500 or more).

For 1998, the rate that both the employer and employee were required to pay for Social Security was 6.2 percent. That rate applied to all wages under \$68,400 paid to an employee (you do not need to pay Social Security taxes on wages over that amount). For Medicare, the rate was 1.45 percent, with no upper limit on the wages to which the tax applies.

To figure how much you should withhold from an employee's paycheck, multiply their wages by the appropriate rate(s). You will then match that amount and deposit the total when appropriate (see the section "When to deposit employer taxes"). See Appendix 1 for examples of how to compute your portion of an employee's Social Security and Medicare taxes.

Farmers are required to pay Oklahoma and federal unemployment taxes if they meet either of the following two conditions:

- They paid all farm workers cash wages of \$20,000 or more in any calendar quarter of the current year or the previous year (that is, their entire payroll for farm workers was more than \$20,000 for the quarter).
- They employed 10 or more farm workers during at least some part of a day (not necessarily at the same time) during 20 or more different weeks in the current year or the previous year.

If you did not meet either of these conditions, you do not need to pay federal unemployment tax. These same conditions apply to Oklahoma unemployment tax. If you need to pay the Oklahoma unemployment tax, contact the nearest office of the Oklahoma Employment Security Commission

(OESC). They can help you determine the appropriate Oklahoma and federal unemployment tax rates (they vary from employer to employer).

## **Am I supposed to withhold income taxes for my agricultural employees?**

If you have employees who are subject to Social Security and Medicare taxes, you must also withhold federal income taxes for them. Whenever an employee starts work, you should have them fill out a Form W-4, the Employee's Withholding Allowance Certificate. On the W-4, the employee will indicate the number of withholding allowances they wish to claim. The amount of income taxes you are to withhold is determined by the withholding allowances and the amount of wages paid. These calculations are usually based on a table or formula provided by the IRS. See IRS publication 51, the *Agricultural Employer's Tax Guide*, for detailed instructions.

## **When do I need to deposit employer taxes and income tax withholding?**

Under Oklahoma law, you are not required to withhold Oklahoma income tax from an employee's wages if you paid him/her \$900.00 or less per month for farm work. If you paid more than this, however, then you will be required to withhold the state income tax, and deposit it quarterly with the Oklahoma Tax Commission.

Employers need to deposit their Social Security, Medicare, and federal income tax withholdings in an authorized financial institution or a Federal Reserve Bank on a monthly or semi-weekly basis. Contact your local bank to see if they can deposit your taxes.

To determine whether monthly or semi-weekly deposits are required, examine IRS Form 943, the Employer's Annual Return for Agricultural Employees, for the relevant "lookback" period. The lookback period is the second calendar year preceding the current calendar year (for example, the lookback period for 1998 is 1996, the lookback period for 1999 is 1997, and so on). If you reported \$50,000 or less of Form 943 taxes (Social Security, Medicare, and federal income taxes) for the lookback period, you need to make withholding deposits monthly. If you reported more than \$50,000, you need to make deposits semi-weekly. However, if your Form 943 taxes amount to less than \$500 for 1998, \$1,000 for 1999 and later years, you can simply pay the taxes when your form is due. Each deposit needs to be accompanied by IRS Form 8109, the Federal Tax Deposit Coupon.

If you are a monthly depositor, you need to deposit the taxes on wage payments for the month in question no later than the 15<sup>th</sup> of the following month. Therefore, if you were paying employer taxes and withholdings for the month of June, the deadline for depositing those funds would be July 15. Deposits are required when total tax liability exceeds \$1,000.

If you are required to make withholdings for Oklahoma income tax, and withhold less than \$500 for the Oklahoma income tax per quarter, you need to file a return and remit the tax payment to the Oklahoma Tax Commission on or before the 15<sup>th</sup> of the month following the close of the quarter. For the quarter ending on March 31, taxes are due by April 15; for the quarter ending on June 30, taxes are due July 15, and so on. However, if you withhold more than \$500 in Oklahoma income taxes, you need to remit the taxes monthly (those payments are due on the 15<sup>th</sup> day of the following month).

## **Do I need to report withholdings to my employees?**

If you are required to make withholdings from an employee's wages for Social Security, Medicare, or federal income taxes, you need to provide that employee with Form W-2, the Wage and Tax Statement, summarizing their wages for the year and the amounts withheld for the year. This form can also be obtained from the IRS local office or by calling 1-800-TAX-FORM (1-800-829-3676). This form should be given to your employee no later than January 31. If an employee ceases work, you should provide them with a W-2 within 30 days of their last wage payment.

If you are required to withhold Oklahoma income tax, you will need to provide a similar statement regarding the withholdings for that tax by January 31. This statement should include the name of the employer, the name of the employee and his/her social security number, and the total amount of wages subject to taxation, if any. As with the W-2, if an employee ceases work before the close of a calendar year, you should provide the statement within 30 days of the date on which the last payment of wages is made.

## **If I am a new employer, do I need to file any records with the government?**

If you have any employees, you will need an employer identification number (EIN). You can apply for one using Form SS-4, the Application for Employer Identification Number, which is available from the IRS or the local Social Security administration office. You will need your EIN to make periodic deposits of taxes and file IRS and Oklahoma Tax Commission forms.

If you are an employer who is required to deduct and withhold Oklahoma income tax (see above), you need to register with the Oklahoma Tax Commission (OTC). This form is available on the OTC's internet site, [www.oktax.state.ok.us](http://www.oktax.state.ok.us). You can also contact the OTC by calling (405) 521-3279, or by mail at:

Oklahoma Tax Commission  
2501 N. Lincoln Boulevard  
Oklahoma City, OK 73194

## Appendix 1 – Example of how to calculate employer taxes and withholdings.

**Please note:** The tax rates used in the following examples are for 1998 returns. These rates are subject to change. Consult current IRS and Oklahoma Tax Commission publications or a qualified accountant for current rates.

**Situation:** Bill owns a farming operation and employs Ted as a hired hand (Ted is Bill's employee, and not an independent contractor). For the work Ted does in farming activities, Bill pays him \$500 every two weeks. Ted is single and claims no withholding allowances for his income taxes.

### Social Security and Medicare Taxes

Since Ted will be paid more than \$150 for the year, he is not exempt from Social Security and Medicare taxes. Bill will need to withhold a portion of Ted's wages, and then match that amount. For the current year, the rate for Social Security taxes is 6.2 percent. Bill should multiply Ted's wages by 6.2 percent (or 0.062, in decimal form), withhold that amount from Ted's wages, and match it. Thus, the calculations for Social Security withholding from Ted's paycheck would be as follows:

Total wages	\$500.00
Multiply by Social Security tax rate	<u>x 0.062</u>
<b>Amount withheld from wages for Social Security</b>	<b>\$31.00</b>

For Medicare withholding, the same procedure is applied using the 1.45 percent (0.0145) rate:

Total wages	\$500.00
Multiply by Medicare tax rate	<u>x 0.0145</u>
Amount withheld for Medicare	\$7.25
<b>Total amount withheld from wages for Social Security and Medicare taxes</b>	<b>\$38.25</b>

Since Social Security and Medicare are considered to be employer taxes, the amount withheld from Ted's wages must also be matched by Bill. So, Bill owes  $\$31.00 + \$7.25 = \mathbf{\$38.25}$  in employer taxes.

### Federal and State Income Tax Withholding

Since Ted is paid more than \$900 per month, his wages are subject to Oklahoma income tax withholding. The Oklahoma Tax Commission tables indicate that for the amount of wages, \$500, paid in a bi-weekly pay period (for a single individual claiming no withholding allowances), the appropriate amount of withholding is **\$13.28**. For federal income taxes, the appropriate table indicates that for the amount of wages, \$500, paid in a bi-weekly pay period, **\$61.00** should be withheld. The total withholding for income taxes is then:

Withholding for Oklahoma income tax	\$13.28
Withholding for federal income tax	<u>+ \$61.00</u>
<b>Total withholding for income taxes</b>	<b>\$74.28</b>

Now, let's calculate Ted's net wages.

Total wages	\$500.00
Less Social Security taxes	-\$31.00
Less Medicare taxes	-\$7.25
Less Oklahoma income tax withholding	-\$13.28
Less federal income tax withholding	<u>-\$61.00</u>
<b>Net wages</b>	<b>\$387.47</b>

So, in summary, Bill (the employer) pays \$38.25 in employer taxes, and withholds an equal amount. In addition, he withholds \$74.28 for income taxes. As a result, he deposits \$112.53 in taxes for this pay period.

# The Oklahoma Cooperative Extension Service

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The Cooperative Extension Service is the largest, most successful informal educational organization in the world. It is a nationwide system funded and guided by a partnership of federal, state, and local governments that delivers information to help people help themselves through the land-grant university system.

Extension carries out programs in the broad categories of agriculture, natural resources and environment; home economics; 4-H and other youth; and community resource development. Extension staff members live and work among the people they serve to help stimulate and educate Americans to plan ahead and cope with their problems.

Some characteristics of the Cooperative Extension system are:

- The federal, state, and local governments cooperatively share in its financial support and program direction.
- It is administered by the land-grant university as designated by the state legislature through an Extension director.
- Extension programs are nonpolitical, objective, and based on factual information.
- It provides practical, problem-oriented education for people of all ages. It is designated to take the knowledge of the university to those persons who do not or cannot participate in the formal classroom instruction of the university.
- It utilizes research from university, government, and other sources to help people make their own decisions.
- More than a million volunteers help multiply the impact of the Extension professional staff.
- It dispenses no funds to the public.
- It is not a regulatory agency, but it does inform people of regulations and of their options in meeting them.
- Local programs are developed and carried out in full recognition of national problems and goals.
- The Extension staff educates people through personal contacts, meetings, demonstrations, and the mass media.
- Extension has the built-in flexibility to adjust its programs and subject matter to meet new needs. Activities shift from year to year as citizen groups and Extension workers close to the problems advise changes.

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