
Payroll

Payroll regulations can be very complex. Quicken can be helpful in keeping track of payroll-related expenses and employment taxes if your payroll is fairly simple. If your operation has many employees, employees on hourly wages or total payroll greater than \$2500 annually, you should consider using QuickPayroll as an add-on program to Quicken. The examples and discussion that follow pertain to a payroll that is straight forward and fairly easy to understand. The following examples relate to agricultural employers **ONLY**.

The withholding of federal and state income taxes and FICA and Medicare taxes are what makes payroll transactions complicated. If an agricultural employer has total annual payroll greater than \$2500, regardless of the number of employees, the employer is required to withhold federal income taxes, FICA and Medicare taxes. If total payroll is less than \$2500, then each individual employee who is paid \$150 or more in cash wages is subject to withholding of income taxes, FICA and Medicare taxes. If the employees are subject to withholding, the employer must match the employee's contribution of FICA and Medicare taxes. Withholding of Ohio income taxes is optional and is required only if the employee requests it. If total payroll is less than \$2500 and no one employee is paid \$150 or more, the employer does not have to withhold on any employee and the payroll transaction is very straightforward.

Bookkeeping Tasks For Payroll (Agricultural Employers)

- 1) Calculate employee earnings and amounts of federal and Ohio income taxes, FICA and Medicare taxes to withhold. The employer pays the same amounts of FICA and Medicare taxes as is withheld from the employees.
- 2) Employers must periodically make deposits of federal income taxes and FICA and Medicare taxes owed. For farmers, the deposits may be required annually, monthly or semi-weekly depending on the amount of taxes owed during the look back period. Consult the current year's IRS Circular A or Circular E for details.
- 3) Employers must make quarterly deposits of Ohio income and any local income taxes withheld. Withholding of Ohio income taxes is optional for agricultural employees.

- 4) At the end of the year, employers must give each employee a Form W-2 showing gross wages received, FICA taxes, Medicare taxes and income taxes withheld. Form W-3, Transmittal of Income Tax Statements, must be filed with the Social Security Administration.
- 5) At the end of the year, the employer must file Form 943, Employer's Annual Return for Agricultural Employees, with the IRS.

Example Situation

If you are required to withhold FICA taxes, you must also withhold federal income taxes. Your employee has also requested that you withhold Ohio income taxes.

Social security taxes are broken into two parts - FICA taxes that are withheld on wages up to \$90,000 for 2005 and Medicare taxes that are withheld on all wages regardless of how much the employee is paid. Percentages for withholding of the various taxes are:

| | Employee | Employer |
|--------------------|-----------|-------------|
| Federal income tax | 0 to 35% | No Match |
| Ohio income tax | 0 to 7.5% | No Match |
| FICA | 6.2% | 6.2% Match |
| Medicare | 1.45% | 1.45% Match |

To determine the amount of federal income tax to be withheld, you should use the withholding tables in the current year's IRS Circular A since withholding is based on the employee's filing status, number of exemptions claimed and how often the employee is paid. Similar tables for withholding Ohio income taxes are available from the Ohio Department of Taxation.

Example:

An employer has one employee, Bob Jones, who is paid \$1800.00 per month before deductions. Bob is married and claims two exemptions. His net paycheck is \$1478.10. The details of his paycheck are:

| | |
|---------------------|-----------|
| Gross pay | \$1800.00 |
| -Federal income tax | -145.00 |
| -State tax | -39.20 |
| -FICA tax | -111.60 |
| -Medicare tax | -26.10 |
| Net pay | \$1478.10 |

In addition, the employer must match and pay \$111.60 for FICA and \$26.10 for Medicare. The employer's total labor expense for this month is $\$1800.00 + \$111.60 + \$26.10 = \1937.70 .

Categories Needed For Payroll Purposes

| <u>CATEGORY</u> | <u>DESCRIPTION</u> | <u>TAX-REL.</u> | <u>TYPE</u> |
|-----------------|------------------------|-----------------|-------------------------|
| Payroll | Payroll expense | Yes | Expense category |
| Comp FICA | Employer paid FICA | Yes | Sub-category of payroll |
| Comp MCARE | Employer paid Medicare | Yes | Sub-category of payroll |
| Gross | Gross wages | Yes | Sub-category of payroll |

Accounts Needed For Payroll Purposes

| <u>ACCOUNT</u> | <u>DESCRIPTION</u> | <u>TAX-REL.</u> | <u>TYPE</u> |
|-----------------|----------------------------|-----------------|-------------------|
| [Payroll-FICA] | FICA taxes | No | Liability account |
| [Payroll-FWH] | Fed. Income taxes withheld | No | Liability account |
| [Payroll-MCARE] | Medicare taxes | No | Liability account |
| [Payroll-SWHO] | Ohio income taxes withheld | No | Liability account |

Following is the register entry for the employee's monthly paycheck from the *FARM CHECKING* account:

| <u>Date</u> | <u>Num</u> | <u>Payee</u> | <u>Memo</u> | <u>Category</u> | <u>Amount</u> |
|-------------|------------|--------------|-------------|-----------------|---------------|
| 1/31/XX | 111 | Bob Jones | | --SPLIT-- | 1,478.10 |

****Split Screen Detail****

| Category | Amount |
|-----------------------|---------|
| 1. Payroll:Gross | 1800.00 |
| 2. [Payroll-FWH] | -145.00 |
| 3. [Payroll-SWHO] | -39.20 |
| 4. [Payroll-MCARE] | -26.10 |
| 5. [Payroll-FICA] | -111.60 |
| 6. Payroll:Comp FICA | 111.60 |
| 7. [Payroll-FICA] | -111.60 |
| 8. Payroll:Comp MCARE | 26.10 |
| 9. [Payroll-MCARE] | -26.10 |

In this paycheck, the first line of the split screen is the gross wages of \$1800.00. Items 2-5 are deductions from the employee's paycheck and are shown as negative entries. Items 6-9 are the employer's contribution and expense for FICA and Medicare taxes. These entries do not affect the bank balance since the expenses (payroll:comp FICA and payroll:comp MCARE) are offset by the negative amounts being added to the payroll liability accounts ([Payroll-FICA] and [Payroll-MCARE]). After this paycheck has been written, the employer has a liability of \$145 for federal income tax, \$223.20 of FICA tax, \$52.20 of Medicare taxes and \$39.20 of Ohio income tax. The total owed to the IRS for employment taxes is \$420.40.

Deposit of Employment Taxes

After writing the paycheck, the employer wants to deposit the federal and state employment taxes. The balances in the employment-related employment liability accounts are as follows:

| LIABILITY ACCOUNT | BALANCE |
|-------------------|---------|
| [Payroll-FWH] | 145.00 |
| [Payroll-FICA] | 223.20 |
| [Payroll-MCARE] | 52.20 |
| [Payroll-SWHO] | 39.20 |

The checks for these employment taxes written from the *FARM CHECKING* account are:

| <u>Date</u> | <u>Num</u> | <u>Payee</u> | <u>Memo</u> | <u>Category</u> | <u>Amount</u> |
|--------------------------------|------------|--------------------------|-------------|-----------------|---------------|
| 1/31/XX | 112 | Internal Revenue Service | | --SPLIT-- | 420.40 |
| **Split Screen Detail** | | | | | |
| | | <u>Category</u> | | <u>Amount</u> | |
| | | 1. [Payroll-FWH] | | 145.00 | |
| | | 2. [Payroll-FICA] | | 223.20 | |
| | | 3. [Payroll-MCARE] | | 52.20 | |
| 1/31/XX | 113 | Ohio Dept. of Taxation | | [Payroll-SWHO] | 39.20 |

After writing these checks the balance in the employer-related liability accounts will be zero.

Creating Payroll Reports

If you have employees and are using Quicken for your payroll transactions, you will need to retrieve payroll data from your records at various times during the year for reporting purposes. The following reports can be created, memorized and used for various reporting purposes with minor modifications by customizing the memorized reports. As you become more proficient with the capabilities of the report section of Quicken, you may want to develop additional payroll reports for your various reporting needs. The data in the following reports is from the payroll example above.

1) Summary Report by Employees for W-2's

From the menu bar, **Click Reports, Click Reports & Graphs Center** (or **Click Reports** on the Main tool bar), **Click Banking, Click Banking Summary**, Set the date range; **Click Customize, Click** the down arrow by **Column:**, **Click Payee, Click Accounts** tab, **Click** the checking accounts from which you are writing payroll checks, **Click Categories** tab, **Click** in the field by **Category Contains:**, **Type Payroll** (or whatever category you are using for payroll transactions), and **Click Show Report.**

You have created a summary report of payroll transactions reported by payees that can now be memorized. **Click the Save Report** button on the Report window tool bar, name the report Payroll Report by Payee and **Click OK**.

This payroll report furnishes the information needed to complete the employee's W-2 form. The employee's gross wages are \$21,600.00, FICA withheld is \$1339.20 (one-half of *FROM Payroll-FICA*), Medicare withheld is \$313.20 (one-half of *FROM Payroll-MCARE*), federal income tax withheld is \$1740.00 (*FROM Payroll-FWH*) and Ohio income tax withheld is \$470.40 (*FROM Payroll-SWHO*). The figures for *TO-Payroll-...* are payments made to the IRS and the Ohio Department of Taxation for withheld income taxes, FICA and Medicare taxes.

The Payroll Report by Payee follows at the end of this section.

2) Form 943 – Employer's Annual Tax Return for Agricultural Employees

The payroll report created above will provide most of the information needed for this return except for the "Monthly Summary of Federal Tax Liability" needed to complete Form 943. Starting with the previous payroll report (by payees) for the year, **Click Customize** within the Report window, change **Column:** to **Month** in the **Display** tab and **Click OK**. Or, again within the Report window **Click** the drop down button for **Column:** **Click Month** and the report will automatically update.

The resulting report gives all the payroll information in a monthly format. The sum of *FROM Payroll-FWH*, *FROM Payroll-FICA* and *FROM Payroll-MCARE* for each month is the employer's federal tax liability for that month. You can memorize this report by **Clicking Save Report** within the Report window, name the report Monthly Fed Employment Tax Liability and **Click OK**. An example of this report is shown on the following page.

The Monthly Federal Employment Tax Liability report follows at the end of this section.

3) Ohio Department of Taxation Reporting

For Ohio purposes, use the same report as above, but with **Column:** set to **Quarter** in the **Display** tab or **Column:** set to **Quarter** at the top of the report. This will provide payroll data on a quarterly basis for the Ohio Department of Taxation if needed. The amounts shown in *FROM Payroll-SWFOH* are Ohio income taxes withheld and *TO Payroll-SWFOH* are payments made to the Dept. of Taxation of those withheld taxes. You can also memorize this report by **Clicking Save Report** within the Report window, name the report Ohio Income Tax Withholding by Quarter and **Click OK**. An example of this report is shown on the following page. The Ohio Income Tax Withholding by Quarter report follows at the end of this section.

QuickPayroll

If you are considering using Quick Payroll for your business more information can be found at the following Web Site:

<http://www.payroll.com/quickpayroll>

Payroll Report by Payee
1/1/XX Through 12/31/XX

| <u>Category Description</u> | <u>Bob Jones</u> | <u>IRS</u> | <u>Ohio Dept. of Taxation</u> | <u>Overall Total</u> |
|-----------------------------|-------------------|------------------|-----------------------------------|----------------------|
| Expenses | | | | |
| Payroll: | | | | |
| Comp FICA | 1,339.20 | 0.00 | 0.00 | 1,339.20 |
| Comp MCARE | 313.20 | 0.00 | 0.00 | 313.20 |
| Gross | <u>21,600.00</u> | <u>0.00</u> | <u>0.00</u> | <u>21,600.00</u> |
| Total Payroll | <u>23,252.40</u> | <u>0.00</u> | <u>0.00</u> | <u>23,252.40</u> |
| Total Expenses | <u>23,252.40</u> | <u>0.00</u> | <u>0.00</u> | <u>23,252.40</u> |
| Transfers | | | | |
| FROM Payroll - FICA | 2,678.40 | 0.00 | 0.00 | 2,678.40 |
| FROM Payroll - FWH | 1,740.00 | 0.00 | 0.00 | 1,740.00 |
| FROM Payroll - MCARE | 626.40 | 0.00 | 0.00 | 626.40 |
| FROM Payroll - SWHO | 470.40 | 0.00 | 0.00 | 470.40 |
| TO Payroll - FICA | 0.00 | -2,678.40 | 0.00 | -2,678.40 |
| TO Payroll - FWH | 0.00 | -1,740.00 | 0.00 | -1,740.00 |
| TO Payroll - MCARE | 0.00 | -626.40 | 0.00 | -626.40 |
| TO Payroll - SWHO | <u>0.00</u> | <u>0.00</u> | <u>-470.40</u> | <u>-470.40</u> |
| Total Transfers | <u>5,515.20</u> | <u>-5,044.80</u> | <u>-470.40</u> | <u>0.00</u> |
| Overall Total | <u>-17,737.20</u> | <u>-5,044.80</u> | <u>-470.40</u> | <u>-23,252.40</u> |

Monthly Federal Employment Tax Liability
1/1/XX through 12/31/XX

| Category Description | 1/XX | 2/XX | 3/XX | 4/XX | 5/XX | 6/XX | 7/XX |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Expenses | | | | | | | |
| Payroll: | | | | | | | |
| Comp FICA | 111.60 | 111.60 | 111.60 | 111.60 | 111.60 | 111.60 | 111.60 |
| Comp MCARE | 26.10 | 26.10 | 26.10 | 26.10 | 26.10 | 26.10 | 26.10 |
| Gross | <u>1,800.00</u> | <u>1,800.00</u> | <u>1,800.00</u> | <u>1,800.00</u> | <u>1,800.00</u> | <u>1,800.00</u> | <u>1,800.00</u> |
| Total Payroll | <u>1,937.70</u> | <u>1,937.70</u> | <u>1,937.70</u> | <u>1,937.70</u> | <u>1,937.70</u> | <u>1,937.70</u> | <u>1,937.70</u> |
| Total Expenses | 1,937.70 | 1,937.70 | 1,937.70 | 1,937.70 | 1,937.70 | 1,937.70 | 1,937.70 |
| Transfers | | | | | | | |
| FROM Payroll - FICA | 223.20 | 223.20 | 223.20 | 223.20 | 223.20 | 223.20 | 223.20 |
| FROM Payroll - FWH | 145.00 | 145.00 | 145.00 | 145.00 | 145.00 | 145.00 | 145.00 |
| FROM Payroll - MCARE | 52.20 | 52.20 | 52.20 | 52.20 | 52.20 | 52.20 | 52.20 |
| FROM Payroll - SWHOH | 39.20 | 39.20 | 39.20 | 39.20 | 39.20 | 39.20 | 39.20 |
| TO Payroll - FICA | 0.00 | 0.00 | -669.60 | 0.00 | 0.00 | -669.60 | 0.00 |
| TO Payroll - FWH | 0.00 | 0.00 | -435.00 | 0.00 | 0.00 | -435.00 | 0.00 |
| TO Payroll - MCARE | 0.00 | 0.00 | -156.60 | 0.00 | 0.00 | -156.60 | 0.00 |
| TO Payroll - SWHOH | <u>0.00</u> | <u>0.00</u> | <u>-117.60</u> | <u>0.00</u> | <u>0.00</u> | <u>-117.60</u> | <u>0.00</u> |
| Total Transfers | <u>459.60</u> | <u>459.60</u> | <u>-919.20</u> | <u>459.60</u> | <u>459.60</u> | <u>-919.20</u> | <u>459.60</u> |
| Overall Total | <u>-1,478.10</u> | <u>-1,478.10</u> | <u>-2,856.90</u> | <u>-1,478.10</u> | <u>-1,478.10</u> | <u>-2,856.90</u> | <u>-1,478.10</u> |

this report continues on next page

Monthly Federal Employment Tax Liability
1/1/XX through 12/31/XX

| Category Description | 8/XX | 9/XX | 10/XX | 11/XX | 12/XX | Overall Total |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|----------------------|
| Expenses | | | | | | |
| Payroll: | | | | | | |
| Comp FICA | 111.60 | 111.60 | 111.60 | 111.60 | 111.60 | 1,339.20 |
| Comp MCARE | 26.10 | 26.10 | 26.10 | 26.10 | 26.10 | 313.20 |
| Gross | <u>1,800.00</u> | <u>1,800.00</u> | <u>1,800.00</u> | <u>1,800.00</u> | <u>1,800.00</u> | <u>21,600.00</u> |
| Total Payroll | <u>1,937.70</u> | <u>1,937.70</u> | <u>1,937.70</u> | <u>1,937.70</u> | <u>1,937.70</u> | <u>23,252.40</u> |
| Total Expenses | <u>1,937.70</u> | <u>1,937.70</u> | <u>1,937.70</u> | <u>1,937.70</u> | <u>1,937.70</u> | <u>23,252.40</u> |
| Transfers | | | | | | |
| FROM Payroll - FICA | 223.20 | 223.20 | 223.20 | 223.20 | 223.20 | 2,678.40 |
| FROM Payroll - FWH | 145.00 | 145.00 | 145.00 | 145.00 | 145.00 | 1,740.00 |
| FROM Payroll - MCARE | 52.20 | 52.20 | 52.20 | 52.20 | 52.20 | 626.40 |
| FROM Payroll - SWHOHO | 39.20 | 39.20 | 39.20 | 39.20 | 39.20 | 470.40 |
| TO Payroll - FICA | 0.00 | -669.90 | 0.00 | 0.00 | -669.90 | -2,678.40 |
| TO Payroll - FWH | 0.00 | -435.00 | 0.00 | 0.00 | -435.00 | -1,740.00 |
| TO Payroll - MCARE | 0.00 | -156.60 | 0.00 | 0.00 | -156.60 | -626.40 |
| TO Payroll - SWHOHO | <u>0.00</u> | <u>-117.60</u> | <u>0.00</u> | <u>0.00</u> | <u>-117.60</u> | <u>-470.40</u> |
| Total Transfers | <u>459.60</u> | <u>-919.20</u> | <u>459.60</u> | <u>459.60</u> | <u>-919.20</u> | <u>0.00</u> |
| Overall Total | <u>-1,478.10</u> | <u>-2,856.90</u> | <u>-1,478.10</u> | <u>-1,478.10</u> | <u>-2,856.90</u> | <u>-23,252.40</u> |

Ohio Income Tax Withholding by Quarter
1/1/XX Through 12/31/XX

| Category Description | 1/XX - 3/XX | 4/XX - 6/XX | 7/XX - 9/XX | 10/XX - 12/XX | Overall Total |
|-----------------------------|--------------------|--------------------|--------------------|----------------------|----------------------|
| Expenses | | | | | |
| Payroll: | | | | | |
| Comp FICA | 334.80 | 334.80 | 334.80 | 334.80 | 1,339.20 |
| Comp MCARE | 78.30 | 78.30 | 78.30 | 78.30 | 313.20 |
| Gross | <u>5,400.00</u> | <u>5,400.00</u> | <u>5,400.00</u> | <u>5,400.00</u> | <u>21,600.00</u> |
| Total Payroll | <u>5,813.10</u> | <u>5,813.10</u> | <u>5,813.10</u> | <u>5,813.10</u> | <u>23,252.40</u> |
| Total Expenses | 5,813.10 | 5,813.10 | 5,813.10 | 5,813.10 | 5,813.10 |
| Transfers | | | | | |
| FROM Payroll - FICA | 669.60 | 669.60 | 669.60 | 669.60 | 2,678.40 |
| FROM Payroll - FWH | 435.00 | 435.00 | 435.00 | 435.00 | 1,740.00 |
| FROM Payroll - MCARE | 156.60 | 156.60 | 156.60 | 156.60 | 626.40 |
| FROM Payroll - SWHOH | 117.60 | 117.60 | 117.60 | 117.60 | 470.40 |
| TO Payroll - FICA | -669.60 | -669.60 | -669.60 | -669.60 | -2,678.40 |
| TO Payroll - FWH | -435.00 | -435.00 | -435.00 | -435.00 | -1,740.00 |
| TO Payroll - MCARE | -156.60 | -156.60 | -156.60 | -156.60 | -626.40 |
| TO Payroll - SWHOH | <u>-117.60</u> | <u>-117.60</u> | <u>-117.60</u> | <u>-117.60</u> | <u>-470.40</u> |
| Total Transfers | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |
| Overall Total | <u>-5,813.10</u> | <u>-5,813.10</u> | <u>-5,813.10</u> | <u>-5,813.10</u> | <u>-23,252.40</u> |

This page is left blank intentionally.