

CONCEPT: PAYROLL AND PAYROLL TAXES

- **Payroll** is generally one of the largest necessary expenses for a company to operate.

□ **Salaries and Wage Expense** – includes the _____ pay earned by employees

- Employees are liable for certain payroll taxes that are withheld by the company
- Employers are also liable for their own payroll taxes

Tax	Responsible for Paying	Calculation
Federal Income Taxes	Employee	Based on IRS Tax Schedule (beyond scope of this class) Total amount due will be given to you
State Income Taxes	Employee	Based on State Tax Schedule (beyond scope of this class) Total amount due will be given to you
Federal Insurance Contribution Act (FICA)	Employer and Employee	Each pay 7.65% of gross pay Total FICA = 7.65% + 7.65% = 15.30%
Federal Unemployment Taxes Act (FUTA)	Employer	Employer pays 6.2% of first \$7,000 earned by each employee Can be reduced by SUTA taxes paid
State Unemployment Taxes Act (SUTA)	Employer	Based on State SUTA rates (usually 5.4%)

□ **Employee Benefits** – any additional benefits paid by the employer are included in *Salaries and Wage Expense*

- Examples: Employer-Sponsored Health Insurance, 401(k) Plan Contributions
- The employee may have additional withholdings from their paycheck to pay for benefits (i.e. insurance)

EXAMPLE: During April, the employees of Stern Company earned wages of \$120,000. The related withholdings included \$7,000 for Social Security (FICA), \$13,000 for federal income taxes, and \$4,000 in state income taxes. Additionally, costs incurred for federal and state unemployment taxes totaled \$180 and \$300, respectively. Stern Company also paid \$2,500 for an employer-sponsored health insurance program. Prepare April 30 journal entries, as if all amounts will be paid in May.

PRACTICE: The following information relates to the monthly payroll expenses at ABC Company:

Gross Salaries	\$200,000
Federal and state income taxes withheld	\$48,000
Health insurance premiums paid by employer	\$10,000
401(k) contributions paid by employer	\$20,000
FICA tax rate	7.65%
Federal unemployment tax rate	6.2%

Record three journal entries: (1) employee salary expense, (2) employer-sponsored benefits, and (3) employer payroll taxes