

Lesson 5 – Hiring Employees

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Welcome to this presentation.

I've a few announcements before we get started.

The information contained in this presentation is current as of the day it was presented, and shouldn't be considered official guidance.

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This program will be maintained in accordance with federal recordkeeping laws.

Now let's get started.

Our general topic's payroll taxes

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In this lesson, we'll concentrate on steps to take when we hire an employee.

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Pub 15, the Employer's Tax Guide, explains your responsibilities as an employer. A new pub is released yearly. You should download a current version at the beginning of each year and review "What's New" for any changes.

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Pub 15 is your main resource on employer/employee related issues. There's a chart that provides a brief summary of your basic responsibilities. Each item in this list has a page reference to a more detailed discussion in this publication.

Refer to page 4 for the initial steps you must take when hiring a new employee.

It includes:

- Verifying eligibility to work in the U.S.
- Recording name and SSN
- Requesting Form W-4

Refer to page 20 for the discussion on federal income tax withholding based on Form W-4.

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Now that we know how to classify hired workers, let's discuss your tribe's responsibility regarding employees.

I'll begin with employment-related Forms I-9 and W-4 as well as new hire reporting for Child Support Enforcement.

Form I-9, Employment Eligibility Verification's required by the Federal Immigration and Nationality Act.

All employers must use the form for employees hired after November 1986 to determine their status and verify work eligibility.

The act prohibits employers from knowingly hiring people who aren't authorized to work in the U.S. organizations don't have to send their Form I-9 to the IRS, but they must keep them on hand.

The tribe and the employee must complete the I-9, and the tribe must keep it three years after the date of hire or one year after the date employment ends, whichever's later.

Ask each new employee to complete and sign a W-4, Employee's Withholding Allowance Certificate. Keep the form on file and send a copy to the IRS only if directed to do so in a written notice.

Record each new employee's name and SSN.

You're required to report any new employee to a designated state new hire registry. Many states accept a copy of Form W-4 with employer information added. Visit the Office of Child Support Enforcement website for more information.

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Like other employers, tribes must withhold and pay federal income tax from its employees' wages. This is a pay-as-you-go tax employees pay as they earn income throughout the year. Wage employers withhold this income tax from every paycheck.

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Here's Form W-4.

To figure how much federal income tax to withhold, employers secure a signed W-4 from an employee by his first day of work. If a new employee fails to provide a completed W-4, your tribe should assume single status with no withholding allowances.

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Each employee's W-4 remains in effect until the employee provides a new one, unless they claim exempt. Exempt status will be discussed later.

What if an employee provides an incomplete W-4 – what should you do? Also, do you need to provide a new W-4 each year?

If the W-4 appears invalid in anyway – not signed, language altered, or missing marital status – you should request a valid one from the employee. If they fail to do so, the employer should withhold at the single rate with zero allowances.

As a matter of practice, you should ask for new W-4 at the beginning of each year. This will remind employees to update their W-4 if they had a change in marital status, birth of a child, a child that reached adulthood, etcetera.

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A W-4's required to compute the proper amount of federal income tax withholding. It provides the employee's:

- Marital status
- Allowances claimed
- Additional tax
- Claim of exemption from withholding of income tax

Available marital status includes single, married and married (but withhold at higher single rate).

Form W-4 includes a Personal Allowances Worksheet. Employees use this to determine the number of allowances to claim.

Question: If I know someone has three children, but they only claim one allowance, is the W-4 invalid?

Answer: No, it isn't invalid. The Personal Allowances Worksheet doesn't correspond to the number of children in the household. There may be unknown reasons why a person claims more or less allowances. As long as the employee signs the W-4, you (as the employer) have done your due diligence. Simply apply the marital status and the allowances claimed.

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Question: Why would someone choose married, but withhold at higher single rate?

Answer: Some married people find they don't have enough tax withheld at the married rate. This can happen, for example, when both spouses work. To avoid this, they can check the married, but withhold at higher single rate box.

If we compare two employees earning identical wages, but claiming different marital status on the W-4, the person claiming married will have less federal income tax withholding on each paycheck than the person claiming single.

Let's take a look at a person earning \$800 per week and claiming one allowance. When we compare the withholding amount for single versus married, the single status has \$27 more withheld than married. \$27 per week times 52 weeks is \$1,404 for a full year.

Next, let's do the same comparison for a person earning \$1,000 per week and claiming three allowances. The single status has \$28 more withheld than the married status. \$28 per week times 52 weeks is \$1456 annually.

It does make a difference.

If a married individual wants more withholding throughout the year to cover other family income, or to have a larger refund when they file Form 1040, it's fine if they choose married, but withhold at higher single rate.

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An employee can only claim exemption from federal income tax withholding. There's no option to be exempt for other payroll taxes.

The exact wording on the 2016 W-4 line 7 says:

I claim exemption from withholding for 2016, and I certify I meet both of the following conditions for exemption.

- Last year I had a right to a refund of all federal income tax withheld because I had no tax liability
- This year I expect a refund of all federal income tax withheld because I expect to have no tax liability.

If an employee meets the above conditions, he writes "exempt" on line 7. There shouldn't be entries on lines 5 or 6.

Question: If there're entries on lines 5 and 7, is he claiming exempt or not?

Answer: It's not up to you to make the decision. Return the W-4 to the employee and explain that claiming both lines 5 and 7 are contradictory. Ask them to submit a new W-4 and claim one or the other – not both.

A W-4 claiming exempt is valid for only one calendar year. Request a new one at the start of each year. If one isn't provided, withhold federal income tax at the default rate of single with zero allowances.

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To recap, let's look at a W-4.

Employees complete W-4 and give it to the employer so (1) the correct federal income tax is withheld from paychecks, and (2) the correct information's on file to complete the W-2s at year end.

Lines 1 and 2 provide the correct name, address, and SSN.

Line 3 lists marital status.

Line 5 lists the number of allowance claimed.

Marital status and allowances are used to compute the federal income tax withholding. Marital status determines the withholding table to use. The number

of allowances claimed has an inverse correlation to the withholding amount. The lower the allowances, the more income tax are withheld. The higher the allowances, the less income tax are withheld.

Line 6's optional and is a request for additional withholding from each paycheck.

Question: Can an employee put a percentage on Line 6?

Answer: No. The entry must be a specific dollar amount.

Question: Why would someone use line 6 if it's optional?

Answer: An entry on line 6 may be common when a household has other income where there's no withholding throughout the year, such as interest, dividends, or self-employment income.

For instance, last year when Nancy filed her Form 1040 Federal Income Tax Return, she had a balance due of more than \$500 because there wasn't income tax withheld throughout the year on her self-employment income. This was a significant burden on her family.

She gets paid biweekly so she requests additional withholding on W-4 line 6 for \$20 so this won't happen again. If this year's fact pattern's the same as last year, she'll now have \$520 or 20 x 26 pay periods more withholding to claim on this year's Form 1040 to cover her self-employment income.

Line 7's where an employee claims an exemption from withholding.

Remember, an employee must meet two conditions to claim exempt. If line 7 says exempt, there shouldn't be an entry on lines 5 and 6.

Finally, the employee must sign and date the W-4. An unsigned W-4 isn't valid.

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Your organization may have bought software to process payroll. Why should you spend the time reviewing these lessons if your software takes care of the payroll taxes?

You should have a basic understanding of what the payroll software's computing. Like most software programs, the output's dependent upon the input. You should know why it is important to input the W-4 information correctly.

Second, what if your computer crashed? Your employees will be upset if their paychecks are delayed.

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After reviewing these lessons, you'll know how to calculate payroll manually and issue net checks to your employees. Everything you had to enter into the payroll software will now have to be computed by hand.

You'll need to multiply hourly rates by hours worked to get gross wages.

Based on the W-4, you'll need to look up the correct federal income tax to be withheld. You'll need to compute and withhold social security and Medicare taxes.

And finally, you'll determine net paychecks by subtracting taxes from gross wages.

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You can review employer responsibilities in Pub 15, Section 9 under Income Tax Withholding for further information. See Pub 15, Section 17 for a discussion on how to use the income tax withholding tables.

There are two main methods and both are based on your employees' W-4 information.

Question: Can you show us how to use these tables to figure income tax withholding?

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Yes, let's demonstrate the wage bracket method.

First, you need to find the proper table for your payroll period.

How frequently do you have payroll? Do you have paydays weekly, biweekly, or semimonthly? Whatever the case, find the table that applies.

Next, find the page relevant to the employee's gross wage and marital status per his W-4 – single or married. You'll find there are two pages for single and two pages for married for each table. Wages start at zero and progress upwards.

Based on the number of withholding allowances claimed on the W-4 and the amount of the gross wage, we'll find the amount of income tax to withhold.

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Here are a few examples of what you'll find when looking for the correct payroll period and marital status.

In the upper left is the table for weekly payroll period and single person.

The middle table is an example for biweekly payroll period and a married individual.

Last, in the lower right, is the semimonthly payroll period and single.

Your organization may pay different classes of employees at different frequency, so more than one of the above may apply.

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Now let's walk through an example and find the correct withholding.

- Jane Blue's W-4 claims married with two allowances.
- She's paid semimonthly.
- Her semimonthly gross pay was \$2,200.
- How much federal income tax is withheld?

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First, we go to Pub 15 and locate the Wage Bracket Method Tables for semimonthly pay periods.

Next, find the page for married and wages of \$2,200.

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In the two left hand columns find wage ranges.

You'll need to scour down the columns to find the wages at issue - \$2,200. Note that 2,200 is listed under both "at least" and "but less than" columns. Choose the column that satisfies a true statement.

Is 2,200 at least 2,200 or less than 2,200? The true statement is 2,200 is at least 2,200, so you'll go to the "at least" column and draw a line across that row.

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Notice the top row of the table.

It says, "and the number of withholding allowances claimed is – "and below are numbers 0-8.

Since Jane's W-4 claimed 2 allowances, travel across the allowance numbers to 2 and draw a line down that column.

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Where do the wages and allowances lines intersect?

In this example, the lines intersect at 189.

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So \$189's the amount of income tax we'll withhold on Jane Blue's \$2,200 paycheck.

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Let's try an exercise to apply what we've learned.

Using Pub 15, look up federal income tax withholding for our employees. W-4 information and gross wages are provided in the second and third columns.

- Lonnelle's W-4 shows a marital status of single with zero allowances.
- Jimmy's W-4 indicates married with two allowances.
- Tiffany's W-4 has a marital status of single but she has written in exempt on line 7.
- Tribal council president entered \$150 on line 6 "additional amount withheld from each paycheck" of his W-4.
- Tribal council vice president and secretary/treasurer didn't provide a W-4.

We issue paychecks every other Friday. Please complete the column for federal income tax withholding using the Wage Bracket Method Tables in Pub 15.

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The answers are:

- We withhold \$318 in federal income tax from Lonnette's \$2,000 wage.
- From Jimmy's \$1,500 wage, we withhold \$95.
- However, we withhold no federal income tax from Tiffany's \$300. because she claimed "exempt."
- From tribal council president's \$1,000 wage, we withhold \$150.
- We withhold nothing from tribal council vice president and secretary/treasurer because Revenue Ruling 59-354 states tribal council members' pay is exempt from withholding of employment taxes, including federal income tax. Unlike the council president, they didn't request additional amount withheld from each paycheck.

Total federal income tax withholding for this pay period's \$563.

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Now the next pay period has arrived for the same employees. Using Pub 15, look up federal income tax withholding. W-4 information and gross wages are provided in the second and third columns.

We issue paychecks every other Friday. Please complete the column for federal income tax withholding using the Wage Bracket Method tables in Pub 15.

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Our answers are:

- We withhold \$338 in federal income tax for Lonnette.
- From Jimmy's \$2,000 wage, we withhold \$170.
- No federal income tax is withheld for Tiffany because she claimed exempt.
- From tribal council president's \$1,500 wage, we withhold \$150.
- Nothing's withheld from tribal council vice president and secretary/treasurer because of Revenue Ruling 59-354. Unlike the

council president, he didn't request additional amount withheld from each paycheck.

Total federal income tax withholding for this pay period is \$658.

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For recordkeeping requirements, refer to Pub 15, page 6

Keep employment tax records at least four years. These should be available for IRS review.

Your records should include:

- Copies of W-4s
- Amounts and dates of all wages paid
- Names, addresses, social security numbers, and occupations of employees
- Employee copies of W-2s returned as undeliverable

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- Dates of employment for each employee
- Dates and amounts of tax deposits and acknowledgment numbers
- Copies of returns filed
 - ✓ For instance, 941's, W-2s, 1099s, etc.
- Expense reimbursement records, including travel vouchers, trip reports and supporting documentation and receipts
- EIN

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This concludes Lesson 5.

We've learned:

- ✓ The importance of securing a valid W-4
- ✓ How W-4 information's used to compute federal income tax withholding
- ✓ How to figure income tax withholding using the wage bracket method

Thank you.