

# Eight Things Doctors Should Know About Payroll Taxes

An educational module created by:

SPECTRUM TAX RELIEF

<http://spectrumtaxrelief.com>

# Introduction

- According to the IRS, employers are required to report and remit payroll taxes for every employee.
- While filing payroll taxes may be a seemingly straightforward task, physicians and other small business owners should have a basic understanding of these eight principles in order to avoid costly mistakes.

# #1 The Basic Formula for Calculating Net Pay

- Calculating the net pay looks like this:

The employee's gross pay (pay rate *times* hours worked)  
(-) *minus* Voluntary deductions  
(-) *minus* Statutory tax deductions

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(=) *Equals* net pay

- Regardless of whether payroll occurs weekly, bi-weekly, monthly, etc., the same calculation is used.
- The person responsible for computing payroll should check and re-check calculations to ensure that the payroll is error-free.

# #2 Voluntary Payroll Deductions

- Voluntary payroll deductions deductions selected by the employee.
- The employee must request the deductions in writing.
- Voluntary deductions should be tracked carefully and applied to the proper accounts.
- They may be paid with pre- or after-tax dollars.
- This type of deduction can be used to pay for a variety of benefits, including:
  - Retirement plan contributions (such as a 401k plan)
  - Employee stock purchase plans (ESPP and ESOP plans)
  - Health insurance premiums (medical, dental, and vision)
  - Life insurance premiums
  - Union dues
  - Uniforms
  - Meals
  - Other job-related expenses

# #3 Statutory Payroll Tax Deductions

- Statutory deductions are those withholdings that are required by law.
- Payroll taxes are statutory deductions.
- Doctors and other small business owners, in fact every employer, accept a fiduciary responsibility to take these withholdings from the employee's paycheck and remit them to the proper tax agencies.
- Payroll tax deductions may include:
  - Federal income tax withholding (based on withholding tables in Publication 15)
  - Social Security tax withholding (6.2% up to the annual maximum)
  - Medicare tax withholding (1.45%)
  - State income tax withholding
  - Various local tax withholdings (such as city, county, or school district taxes, state disability or unemployment insurance).

# #4 Payroll Tax Responsibilities for Doctors

- In addition to collecting voluntary and statutory withholdings, employers also have the following responsibilities:
  - Allocating and depositing the employer portion of the payroll taxes
  - Depositing tax dollars withheld
  - Preparing reports for state and Federal authorities
  - Filing payroll tax returns
  - Accounting for voluntary withholdings and ensuring that those monies are sent to the proper account
  - Preparing annual W-2 forms

# #5 Employer Portion of Payroll Taxes

- Employers pay a portion of the total payroll tax for each employee.
- These taxes are an additional amount paid to the government and may be used to compute the fully-burdened cost of an employee.
- The employer-portion of payroll taxes includes:
  - Federal unemployment taxes (FUTA)
  - State unemployment taxes (SUTA)
  - Social Security taxes (6.2% up to the annual maximum)
  - Medicare taxes (1.45% of wages)

# #6 FICA Taxes

- FICA (Federal Insurance Contributions Act) is a payroll tax that is comprised of Social Security and Medicare taxes.
- These taxes are paid both by the employer and the employees.
- Combined, the FICA taxes equates to 15.3%, which includes:
  - Social Security (Employee: 6.2%)
  - Social Security (Employer: 6.2%)
  - Medicare (Employee: 1.45%)
  - Medicare (Employer: 1.45%)

# #7 Reporting Payroll Taxes

- Physicians have the same responsibility as any other business owner when it comes to reporting their tax obligation in a timely manner.
- They must also take care to deposit payroll taxes when they are due.
- Reporting requirements include:
  - Annual federal unemployment tax return (Form 940 or 940EZ)
  - Employer's quarterly payroll tax return (Form 941)
  - Annual Return of Withheld Federal Income Tax (Form 945)
  - Federal tax deposits
  - Wage and Tax Statements (Form W-2)

# #8 Timeliness is Essential

- Business owners can pay federal payroll taxes by mail or online.
- Payments and reports should be submitted on time.
- The choice of a payroll accountant should be considered carefully.
- An annual audit of payroll documents should be completed to ensure that mistakes are caught before they become a problem.
- Because employers act as an intermediary in collecting and sending taxes to the government, the IRS takes payroll taxes very seriously.

Payroll taxes are one of the few issues that cannot be cleared away by a bankruptcy judgment.

# More Information

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