

COMPLYING WITH FEDERAL PAYROLL RECORDKEEPING REQUIREMENTS

Employers liable for payroll taxes are required by law to keep certain records which can be used to determine whether and how much tax liability exists. For federal tax purposes, employment tax records must be maintained for at least four years after the later of: the due date of the tax for the return period to which the records relate or the date the tax is paid. Here is a summary of the specific records which must be maintained for income, Social Security and Medicare taxes and for federal unemployment tax.

■ **Income, Social Security and Medicare Taxes**

The following records must be kept for at least four years after the due date of the employee's personal income tax return (generally, April 15th) for the year in which the payment was made:

- employer identification number;
- employee's name, address, occupation, and social security number;
- total amount and date of each payment of compensation, including reported tips and the fair market value of noncash payments and any amount withheld for taxes or otherwise;
- amount of compensation subject to withholding for federal income, Social Security and Medicare taxes, and the amount withheld for each tax;
- the pay period covered by each payment of compensation;
- the reason(s) why the total compensation and the taxable amount for each tax are different, if that is the case;
- the employee's Form W-4;
- the beginning and ending dates of the employee's employment;
- the statements provided by employees reporting tips received;
- support for wage continuation payments made by an employer or third party to an employee under an accident or health plan;
- fringe benefits provided to employees and any required substantiation;
- any requests from employees to use the cumulative method of wage withholding;
- adjustments or settlements of taxes;

- copies of returns filed (on paper or magnetic media), including Forms 941, 943, W-3, 6559, Copy A of Form W-2, and any Forms W-2 sent to employees but returned as undeliverable; and
- amounts and dates of tax deposits.

■ **Unemployment Tax**

Employers subject to the Federal Unemployment Tax Act (FUTA) must keep the following information for at least four years after the due date of Form 940 (or 940-EZ) or the date that the required FUTA tax was paid, whichever is later: (1) the total amount of employee compensation paid during the calendar year; (2) the amount of compensation subject to FUTA tax; (3) state unemployment contributions made, with separate totals for amounts paid by the employer and amounts withheld from employees's wages (currently, Alaska, New Jersey, and Pennsylvania require employee contributions); (4) all information shown on Form 940; and (5) the reason(s) why total compensation and the taxable amounts are different, if that is the case.

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