



Employment Taxes

Generally, you are self-employed if you carry on a trade or business as a sole proprietor, an independent contractor, or a member of a partnership. Owners of these types of entities are not considered employees for the purpose of federal and state employment taxes. The following outlines the various employment taxes when a business has employees (non-owners).

Federal Social Security and Medicare Tax

If you work as an employee in the United States, you must pay Social Security and Medicare taxes in most cases. Employers deduct these taxes from each of the employee's wages. In general, U.S. social security and Medicare taxes apply to payments of wages for services performed as an employee in the United States, regardless of the citizenship or residence of either the employee or the employer. The current tax rate for social security is 6.2% for the employer and 6.2% for the employee, or 12.4% total. The current rate for Medicare is 1.45% for the employer and 1.45% for the employee, or 2.9% total.

Federal Employee Income Tax Withholdings

An employee and the employer need to complete and sign a Federal [Form W-4](#) when the employee is hired. The completed forms need to be retained by the business in a permanent file for each employee. The information from this form is used to determine how much the employee wants to withhold from their paycheck for federal income taxes they will owe for the year.

Deposits for Social Security tax, Medicare tax, and federal income tax that are withheld from an employee's paychecks, as well as the employer's portion of Social Security and Medicare tax are due either monthly or semi-weekly, depending on the amount of payroll taxes the business has paid in the past. Employers use [Form 941](#) to report these taxes each quarter.

Federal Unemployment Tax

The Federal Unemployment Tax Act (FUTA) is the federal law that outlines the need for employers to pay a tax that funds payments of unemployment compensation to workers who have lost their jobs. Here is more information about the program - [Federal Unemployment Tax](#). Deposits for this tax are required for the quarter within which the tax due exceeds \$500. At the end of the calendar year, the business will need to complete and file Federal [Form 940](#).

For more information on Federal Employment Taxes go to <https://www.irs.gov/businesses/small-businesses-self-employed/employment-taxes> and/or check out some of these virtual workshops on federal taxes at www.irsvideos.gov/SmallBusinessTaxpayer/virtualworkshop

State Employee Income Tax Withholdings

Most, but not all, states have personal income taxes. For those states that do, an employee and the employer need to complete and sign the appropriate forms to determine how much the employee wants to withhold from their paycheck for state income taxes they will owe for the year. Deposits and filings for the state income tax withholdings are due throughout the year (see state's filing requirements).

State Unemployment Tax

Most, but not all, states have state unemployment insurance tax that funds payments of unemployment compensation to workers who have lost their jobs. Each state has their own tax assessment and tax rates. Deposits and filings for the state income tax withholdings are due throughout the year (see state's filing requirements).