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Payroll Taxes – what they are and how they work.



Payroll taxes are taxes that are typically calculated on a percentage of employee's wages, and are required to be paid by the employer and/or employee. Employers must also pay their own payroll taxes, from their own funds, that relate to employing workers. Payroll taxes in the United States are assessed by the Federal government, and many of the U.S. states.

Employers know first-hand that paying payroll taxes can be extremely time-consuming and stressful. In addition to having to calculate taxes, the Federal and state government enforce strict filing deadlines, for which fines can be incurred, if not met. There are a variety of ways to handle the management and payment of payroll taxes.

The tracking of payroll taxes can be performed manually, if no payroll software or payroll service is being used by the business. In order to find the tax tables, the employer would need to find the information from each tax entity. However, the more employees for which to track payroll taxes, the more manual work will be involved in the tracking of this information. Not only does manually tracking this information take much more time, there is also a higher margin for error. Therefore it is best to use payroll software or a payroll service, where tax information is set up for each employee, based on the employee's W4 form.

Employers are required to report payroll taxes to the appropriate jurisdiction, and must report it in the manner that jurisdiction requires. These can be required every pay run, monthly, quarterly or annual depending on the amount of tax and the entity. Quarterly and annual reporting of income tax withholding and social security taxes is required in most jurisdictions. Employers must also file unemployment tax quarterly and annually with each state and at the Federal level.

The payment and filing of Federal payroll taxes is required via electronic fund transfer, and a growing number of states are also requiring it. Paying manually (where allowed) can be accomplished by gathering the information and calculating the amounts, purchasing the tax forms, filling them in by hand, and mailing them to the appropriate parties. Some entities also allowed you to pay via their web site. Again, this can become a painstaking process with a large number of employees.

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Many employers prefer to improve and streamline processes for managing the payroll tax information, which includes gathering it up quarterly and yearly, purchasing the forms, filling them in, stuffing and stamping envelopes and mailing them. The best way to accomplish this is to begin using a payroll software system, which may be an installed program or accessed online, or using a by payroll service. Using a payroll software system, whether internal or online, allows employers to be tracking payroll tax information as payroll processed throughout the year. When quarterly and yearly filing is due, that information can be pulled seamlessly from within the system, from which the employer has several options for filing. Most systems will allow the printing of tax forms onto plain paper or onto purchased tax forms. Many software systems also allow for the online filing of payroll taxes directly from the system, and some allow employers to take it a step further and outsource the entire process of payroll tax filing. Filing online is an absolute necessity for large employers, due to the drastic time and cost savings. Having all this info within a payroll system also makes processing W-2 forms much easier.

Using a payroll service can be helpful in the case that the company wants to relieve the burden of strict payroll tax filing deadlines. Though payroll services work in different ways depending on the company, their main benefit is that they take care of filing payroll taxes on behalf of the company.

CenterPoint Payroll can handle payroll tax filing for small to large companies, and for those managing the payroll for multiple companies. Tax filing can be done on plain paper, purchased forms, or forms can be eFiled. If your business is looking for better tools to managing payroll tax filing, sign up for a demo of CenterPoint Payroll today.