Payroll Handbook for Small Communities

State of Alaska
Department of Commerce, Community, and Economic Development
Division of Community and Regional Affairs
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Preface

This updated Payroll Handbook includes tax forms and regulation changes effective January 2017 as well as forms from prior years used as examples. The Payroll Handbook has three chapters. Chapter 1 covers some of the basic information on labor laws that all employees should be familiar with. Chapter 2 reviews what records are needed to do payroll. Each record is briefly described and samples are shown. Chapter 3 has a step-by-step process to complete payroll records. The chapter also has examples of how these records are filled out.

By reviewing this handbook, you will become more familiar with:

- Why you need payroll records;
- How to set up personnel records for tax purposes;
- Labor laws affecting wage rates and payroll record requirements;
- How to figure federal and state payroll taxes;
- How to create and maintain payroll records; and
- How to pay the payroll taxes.
INTRODUCTION

As a bookkeeper for a small community, you probably prepare paychecks and payroll taxes, keep payroll and personnel records, and disburse payroll taxes to the federal and state governments. **This handbook will help you prepare payroll and meet federal and state payroll tax requirements.** If you are new on the job or have had trouble handling the community's payroll, this handbook will be useful. Even if you have been successfully doing your job for a long time, the information in this handbook may be new.

For further assistance on payroll record keeping and paying taxes, contact a local government specialist from the Division of Community and Regional Affairs (DCRA) in the Department of Commerce, Community, and Economic Development (DCCED).
WHERE CAN I GET HELP?

Department of Commerce, Community, and Economic Development (DCCED)

Division of Community and Regional Affairs (DCRA)

Regional Offices

Kotzebue
PO Box 350
Kotzebue, AK 99752-0350
Phone: 907-442-3696
Fax: 907-442-2402

Nome
PO Box 1769-1769
Nome, AK 99762-1769
Phone: 907-443-5459
Fax: 907-443-3596

Bethel
PO Box 348
Bethel, AK 99559-0348
Phone: 907-543-0890
Fax: 907-543-4152

Dillingham
PO Box 790
Dillingham, AK 99576-0790
Phone: 907-842-1969
Fax: 907-842-5140

Fairbanks
455 3rd Avenue, Ste. 140
Fairbanks, AK 99701-3110
Phone: 907-451-2749
Fax: 907-451-2742

Anchorage Central Office
550 W 7th Ave, Ste. 1770
Anchorage, AK 99501-3510
Toll Free: 877-769-4614
Phone: 907-269-4564
Fax: 907-269-4563

Juneau
PO Box 110809
Juneau, AK 99811-0809
Phone: 907-465-4814
Fax: 907-465-3767
BOOKKEEPER'S CHECKLIST FOR PAYROLL PREPARATION

This checklist may be helpful when preparing a payroll. Refer to specified pages in this handbook for more information.

- Every employer must have a federal Employer Identification Number (EIN). Find out if your employer has one. If not, apply for an EIN.
- Every employer must also have an Alaska Employer Identification Number (AEIN). Find out if your employer has one. If not, apply for an Alaska EIN.
- Review the organization's policies and procedures to determine pay rates for job classes. Also, review policies on overtime payments. If the organization does not have an established pay rate for jobs on the payroll or an overtime policy, the city or village council needs to set one up. For help, contact the nearest office of the Division of Community and Regional Affairs (DCRA).
- Review current federal and state tax laws and regulations to determine tax rates, withholding requirements, payment procedures, and reporting requirements. Make sure you have the most current copies of all forms and Internal Revenue Service (IRS) Circular E.
- Make sure all employees have a current W-4 and I-9 form on file. Every new employee must complete a W-4 before beginning work.
- Review the organization's payroll record keeping system to make sure the following records are kept:
  - Current pay rates for all employees
  - Time sheets or time cards to record hours worked
  - Leave slips to record leave used
  - Pay records for each employee, summarized by quarter
  - Payroll journal combining all information from individual pay records
  - A copy of the statement of earnings and deductions given to each employee
  - Copies of tax payments, quarterly tax returns, and correspondence with the IRS and the Alaska Department of Labor and Workforce Development
- Make sure the community and contractors have workers’ compensation insurance and premiums are paid.
- Examine the checking account before completing payroll to make sure money is available to cover the paychecks, the withholding, and the employer costs, if required with FICA, ESA, and FUTA (Federal Insurance Contributions Act, Employment Security Act, and the Federal Unemployment Tax Act).
- Even if the organization does not have money to pay the taxes, complete and submit the tax reports to the IRS. If these reports are not submitted, your organization will receive penalties from the IRS. Do not pay wages without paying the taxes that are owed!
- Complete the payroll and pay the taxes to the IRS.
CHAPTER 1: THE BASICS

Accurately preparing payroll is important

Correctly paying wages and taxes is critical to every employer, including municipal and tribal governments. Bookkeepers must carefully follow federal and state payroll tax requirements. Otherwise, the community may lose property to the federal government for back taxes owed and workers may lose Social Security and unemployment benefits. By keeping accurate payroll records and paying the taxes owed, your community can avoid fines or even criminal prosecution.

Differences between Hourly Wages, Salaries, and Contract Workers

This handbook assumes you are figuring payroll for hourly wage employees. Other classes of employees are treated differently when calculating payroll. For example, salaried employees are not usually paid overtime, and a person working under contract does not usually have federal withholding and Social Security taxes withheld.

Workers are paid either an hourly wage, a salary, or are under a contract. Because most people working for small communities earn hourly wages, this handbook focuses on payroll for workers earning hourly wages. Before we go further, let's look at some of the differences between salaries, and contractors.

Hourly Wages or Salary?

Although the terms "wage" and "salary" are often considered to mean the same thing, the two concepts are different. Hourly wages are payments to an employee based on an hourly rate multiplied by the number of hours worked. Salary, on the other hand, is a payment to the employee usually based on working a standard number of hours per pay period (agreed by both parties). The important difference between these two classes of employees is that if a salaried employee works longer than 40 hours a week, he or she may not be entitled to overtime.
Pay for salaried employees is easier to calculate because, typically, the gross amount earned is the same for every pay period. Whether the employee is salaried or earning an hourly wage, the payroll deductions are calculated in the same way.

**Employee or Contractor?**

Let's look at the difference between (salaried or hourly wage) and contractors. It is important to know the difference because you do not withhold taxes or pay benefits, such as unemployment insurance, for independent contractors.

Briefly, a person is considered an employee if you have the right to control and direct the details of the work to be performed. A person is considered an independent contractor if you have the right to control or direct only the result of the work, but not the details of how the work will be performed. Also, holding a business license does not constitute a payee as a contractor, nor does the issuance of a contract.

There are some other differences when it may not be clear whether a person is working as an employer or as a contractor. (For information see IRS Publication 15-A: Employer's Supplemental Tax Guide or the IRS Publication 963: Federal-State Reference Guide.)

The IRS requires you to complete Form W-9: “Request for Taxpayer Identification Number and Certification” from any individual or organization who performs services for you as an independent contractor. The completed form must be kept on file in the office – do not send it to the IRS. (See the example on the following page.)
## W-9 Request for Taxpayer Identification Number and Certification

### Part I Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. The TIN provided must match the name given on line 1 to avoid backup withholding. For individuals, this is generally your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the Part I instructions on page 3. For other entities, it is your employer identification number (EIN). If you do not have a number, see how to get a TIN on page 3.

**Note:** If the account is in more than one name, see the instructions for line 1 and the chart on page 4 for guidelines on whose number to enter.

<table>
<thead>
<tr>
<th>Field</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Name (as shown on your income tax return). Name is required on this line; do not leave this line blank.</td>
</tr>
<tr>
<td>2</td>
<td>Business name disregarded entity name, if different from above</td>
</tr>
<tr>
<td>3</td>
<td>Check appropriate box for federal tax classification; check only one of the following seven boxes:</td>
</tr>
<tr>
<td></td>
<td>Individual/sole proprietor, C Corporation, S Corporation, Partnership, Trust/estate, single-member LLC, Limited liability company. Enter the tax classification (C or C corporation, S or S corporation, P or partnership).</td>
</tr>
<tr>
<td></td>
<td>Note: For a single-member LLC that is disregarded, do not check LLC; check the appropriate box in the line above for the tax classification of the single-member owner.</td>
</tr>
<tr>
<td>4</td>
<td>Exemptions (codes apply only to certain entities, not individuals; see instructions on page 3):</td>
</tr>
<tr>
<td></td>
<td>Exempt payee code (if any)</td>
</tr>
<tr>
<td></td>
<td>Exemption from FATCA reporting code (if any)</td>
</tr>
<tr>
<td>5</td>
<td>Address (number, street, and apt. or suite no.)</td>
</tr>
<tr>
<td>6</td>
<td>City, state, and ZIP code</td>
</tr>
<tr>
<td>7</td>
<td>List account number(s) here (optional)</td>
</tr>
</tbody>
</table>

### Part II Certification

Under penalties of perjury, I certify that:

1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me); and
2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN. See the instructions on page 3.

### Sign Here

**Signature of U.S. person**

**Date**

### General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

**Future developments:** Information about developments affecting Form W-9 (such as legislation enacted after we release it) is at [www.irs.gov/nsw](http://www.irs.gov/nsw).

**Purpose of Form**

An individual or entity (Form W-9 requester) who is required to file an information return with the IRS must obtain your correct taxpayer identification number (TIN) which may be your social security number (SSN), individual taxpayer identification number (ITIN), adoption taxpayer identification number (ATIN), or employer identification number (EIN), to report on an information return the amount paid to you, or other amount reportable on an information return. Examples of information returns include, but are not limited to, the following:

- Form 1099-INT (interest earned or paid)
- Form 1099-DIV (dividends, including those from stocks or mutual funds)
- Form 1099-MISC (various types of income, prizes, awards, or gross proceeds)
- Form 1099-B (stock or mutual fund sales and certain other transactions by brokers)
- Form 1099-S (proceeds from real estate transactions)
- Form 1099-K (merchant card and third party network transactions)

- Form 1038 (home mortgage interest), 1038-E (student loan interest), 1098-T (tuition)
- Form 1099-C (cancelled debt)
- Form 1099-A (acquisition or abandonment of secured property)

Use Form W-9 only if you are a U.S. person (including a resident alien), to provide your correct TIN.

If you do not return Form W-9 to the requester with a TIN, you might be subject to backup withholding. See What Is Backup Withholding? on page 2.

By signing the filled-out form, you:

1. Certify that the TIN you are giving is correct (or you are waiting for a number to be issued),
2. Certify that you are not subject to backup withholding, or
3. Claim exemption from backup withholding if you are a U.S. exempt payee. If applicable, you are also certifying that as a U.S. person, your allocable share of any partnership income from a U.S. trade or business is not subject to the withholding tax on foreign partners' share of effectively connected income, and
4. Certify that FATCA code(s) entered on this form (if any) indicating that you are exempt from the FATCA reporting, is correct. See What Is FATCA reporting on page 2 for further information.
Form W-9 must be received before a payment is made to an individual or company hired as a contractor. If a contractor, business, or vendor refuses or neglects to give you a Form W-9, you must withhold part of their payment for taxes. This is called backup withholding. The rate of backup withholding is currently 28%. Check with the IRS for the rate after August 1, 2017. If you must do backup withholding, you will need to deposit the amount you withheld and file an additional tax return at the end of the year, Form 945: "Annual Return of Withheld Federal Income Tax". This form is used to report any backup withholding associated with Forms 1099 and W-2G.

If the payee is a tax-exempt organization, a government agency, a corporation or any other organization listed as exempt from back up withholding, you are not required to backup withholding on any payments you make. (See IRS instructions for the Requester of Form W-9). If the contractor claims to be incorporated, the contractor must provide proof of incorporation and proof of workers compensation insurance.

**Form 1099-MISC: Miscellaneous Income**

At the end of the year, if the independent contractor has been paid more than $600 during the calendar year for services, you must report the payments on IRS Form 1099-MISC in box 7, Nonemployee Compensation. (See form below).
Consider the following differences when it may not be clear whether a person is an employee or a contractor.

<table>
<thead>
<tr>
<th>EMPLOYEE</th>
<th>OR</th>
<th>CONTRACTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Paid by the hour, week, or month</td>
<td>1. Paid by the job or by terms of contractual agreement</td>
<td></td>
</tr>
<tr>
<td>2. Travel expenses are reimbursed</td>
<td>2. Negotiates business and travel costs as part of the total contract</td>
<td></td>
</tr>
<tr>
<td>3. Is told when, where, and how to do the work</td>
<td>3. Is only told what is to be done and the deadline for completing the project.</td>
<td></td>
</tr>
<tr>
<td>4. Works at your office or wherever you choose</td>
<td>4. Works wherever the individual or company doing the work believes that it can be done most efficiently</td>
<td></td>
</tr>
<tr>
<td>5. Tools and materials supplied by the employer</td>
<td>5. Generally uses his or her own tools and materials when doing the work.</td>
<td></td>
</tr>
<tr>
<td>6. Doesn't generally risk his or her own money in the overall business</td>
<td>6. Profit or loss is a direct result of how and when work is done</td>
<td></td>
</tr>
<tr>
<td>7. Works only for you</td>
<td>7. Works for whomever is willing to pay the fee; might work for more than one community at the same time</td>
<td></td>
</tr>
<tr>
<td>8. Employer must pay workers compensation insurance</td>
<td>8. Contractor must pay workers compensation insurance</td>
<td></td>
</tr>
</tbody>
</table>
Form 945: Annual Return of Withheld Federal Income Tax
In addition to filing Form 1099-MISC, use Form 945 to report annual income tax withheld from nonpayroll payments. Nonpayroll payments include the following:

- Gambling winnings; and
- Backup withholding from contractors who fail to provide a Social Security Number or Federal Employer Identification Number (EIN).

The annual deadline for filing Form 945 is January 31. For instance, the 945 forms for 2014 must be filed by January 31, 2015.

IRS Form 945 is shown here.

If any employee of the city, tribe or any council does not provide his or her Social Security Number, the individual becomes subject to backup withholding at a 28% rate on payments required to be reported in boxes 1, 2, 3, 4, 5, 6, 7, 8 and 10 on this form. For more information, obtain the most recent instructions on forms 1099, 1098, 5498, and W-2G.

For more information, refer to the latest Publication 505: Tax Withholding and Estimated Tax or Publication 15: Circular E, Employer’s Tax Guide.
W-2: Wage and Tax Statement for Council Stipends

All stipends paid to council members for attending council meetings are reported on a W-2. City and tribal council members have different reporting requirements.

Stipends to city council members are treated as regular wages. FICA and federal income taxes are withheld and reported on the annual W-2 Wage and Tax statement.

Tribal council member stipends fall under Revenue Ruling 59-354 (Rev. Rul. 59-354). In box 14 of the W-2, Rev. Rul. 59-354 should be cited. This ruling holds that tribal stipends are includible in the council member’s gross income, but they do not constitute wages for FICA and federal income tax withholding. If the council member is also an employee of the tribe, you can combine the employee wages with the council wages and in box 14 cite the ruling and the amount of council wages. Or you can have separate W-2s for the employee wages and another for the council wages. (See example on page 73)
Laws To Know

Federal and state laws govern:
- How employees are paid;
- Deductions you must withhold from paychecks;
- What payroll records must be kept; and
- The length of time records must be kept.

Federal Laws

**Fair Labor Standards Act (FLSA)**
Also known as the Wage and Hour Law;
- Sets **federal minimum wage** ($7.25 per hour, effective July 24, 2009);
- Establishes normal work week (40 hours);
- Requires wage rate of one and a half times the normal wage rate for overtime;
- Requires employers to keep records of every employee; and
- Requires payroll records be kept at least three years.

**Federal Insurance Contributions Act (FICA)**
Better known as Social Security and Medicare;
- Requires that employees and employers pay an equal amount to a federally operated trust fund;
- Requires an employer to withhold from employee's wages the employee's portion of taxes;
- Provides payments to workers participating in the system;
- Provides benefits to families of deceased workers;
- Requires an employer to keep records of every employee;
- Requires an employer to make payroll tax deposits either semiweekly or monthly; however, payroll tax deposits can be made each time payroll checks are issued; and
- Requires an employer to file quarterly tax reports (Form 941).
Federal Laws

Federal Unemployment Tax Act (FUTA)
*Note: Cities and boroughs are exempt from this Act.*

Federally recognized tribes are exempt if the tribe is current in filing and paying their state unemployment taxes (ESC) with the Alaska Department of Labor and Workforce Development.

- Requires the employer to pay an unemployment benefit tax;
- Provides payments to unemployed workers;
- Requires the employer to keep separate employee records;
- Requires employee records be kept four years;
- Requires an employer to make quarterly tax payments; and
- Requires an employer to file an annual report.

Privacy Act and Paper Reduction Act
- Uses Electronic Federal Tax Payment System (EFPTS);
- Requires an internet connection for online payments;
- Requires the EIN of the Employer;
- Requires a bank account and routing number;
- Provides a quick and easy payment method; and
- Accommodates telephone transactions.

Davis-Bacon Act
*Note: Davis-Bacon does not apply to municipalities using their own workers and acting as general contractors.*

- Requires contractors to pay "prevailing wages" for labor used to construct, alter, or repair public buildings financed with federal money.

Occupational Safety and Health Act (OSHA)
- Requires a workplace be free from hazards;
- Requires records of accidents and injuries be kept; and
- Allows OSHA inspection of the workplace. If violations are discovered, fines may be imposed on the employer.
Civil Rights Act of 1964

- Prohibits discrimination in hiring, firing, or promoting based on race, color, religion, sex, or national origin; and
- Requires records retention of all personnel actions: hires, promotions, discharges, pay increases, etc. To defend personnel actions, employers should keep careful records on employees.

Immigration Reform and Control Act (IRCA)

- Requires proof of employee's legal right to work in the United States before hiring.
- Requires Form 1-9 be completed for every person hired after May 31, 1987. The form is kept on file by the employer for at least three years, or until one year after the employee leaves your employment (whichever is longer); and
- Requires employers present 1-9 forms for inspection to an officer of the Immigration and Naturalization Service or the State of Alaska Department of Labor and Workforce Development (DOLWD) upon request.
State Laws

Alaska Wage and Hour Act: Alaska Statute 23.10

*Note: Cities and boroughs are required to follow only some provisions of this law.*

- Establishes **state minimum wage** at $9.80 per hour, as of January 1, 2017;
- Establishes a standard work week of 40 hours; and
- Requires that work in excess of 40 hours per week or 8 hours per day be paid at a wage rate one and a half times the regular wage rate for FLSA-eligible employees.

Employment Security Act (ESA): Alaska Statute 23.20

- Establishes the State Unemployment Insurance Program;
- Requires employers file a "Liability Determination" with DOLWD;
- Requires accurate payroll records be maintained;
- Requires payroll records be kept for five years;
- Requires quarterly tax reports be filed; and
- Requires quarterly payment of taxes. However, payments can be made each time payroll checks are issued. This tax is often referred to as the Employment Security Contribution (ESC). It may also be called State Unemployment Insurance (SUI), or State Unemployment Tax (SUTA).

“Little” Davis-Bacon Act: Alaska Statute 36.05

- Requires a contractor or subcontractor working on public construction projects to pay not less than the "current prevailing rate," as determined by the DOLWD. Municipalities using their own labor are exempt from this requirement.

Workers' Compensation: Alaska Statute 23.30

- Requires an employer, including contractors, to get workers' health and disability insurance. Insurance must pay for full medical treatment for an "on-the-job" injury or illness and must pay 80% of the employee's net spendable weekly wage (up to certain limits) for a worker's absence due to injury or illness. For more information see: [http://www.labor.state.ak.us/wc/we-brochure.pdf](http://www.labor.state.ak.us/wc/we-brochure.pdf)
Federal Agency Contacts

If you have questions on topics below, please contact the listed agency.

- **U.S. Department of Labor, ESA Wage and Hour Division**
  Contact: Fair Labor Standards Act or Davis-Bacon Act
  1111 3rd Ave., Suite 755
  Seattle, WA 98101-3212
  1-866-487-9243
  [www.dol.gov/whd/index.htm](http://www.dol.gov/whd/index.htm)

- **Internal Revenue Service for Cities, Tribes and Non-Profits**
  Cities:
  Federal, State, and Local Government (FSLG)
  Pacific Coast Region
  Customer Account Services – Pacific Coast
  1-877-829-5500

  Tribal Government:
  Indian Tribal Governments (ITG)
  1-877-829-5500

  Charities and Non-Profits
  1-877-829-5500

- **IRS Forms and Publications to Order or Download**
  Contact: Internal Revenue Service
  1-800-829-4933
- **U.S. Department of the Treasury**
  Contact: Electronic Federal Tax Payment System
  1-800-555-4477
  [www.eftps.gov](http://www.eftps.gov)

- **Social Security Administration**
  Contact: Social Security
  Room A11
  222 W. 8th Ave.
  Anchorage, AK 99513
  1-800-772-1213
  [www.socialsecurity.gov](http://www.socialsecurity.gov)

- **Immigration Reform and Control Act**
  Contact: U.S. Citizenship and Immigration Services
  620 East 10th Ave., Suite 101
  Anchorage, AK 99501-3799
  [www.uscis.gov/portal/site/uscis](http://www.uscis.gov/portal/site/uscis)

  INFOPASS: [https://my.uscis.gov/en/appointment/v2](https://my.uscis.gov/en/appointment/v2)
  Forms or general information:
  1-800-375-5283
  [www.uscis.gov/forms](http://www.uscis.gov/forms)
State Agency Contacts

• **Employment Security Act (ESA)**
  Contact: Department of Labor and Workforce Development
  Division of Employment Security
  P.O. Box 115509
  Juneau, AK 99811-5509
  Phone: 1-907-465-2712
  [www.labor.state.ak.us/esd](http://www.labor.state.ak.us/esd)

• **Fair Labor Standards Act (FLSA)**
  Contact: Department of Labor and Workforce Development
  Wage and Hour Administration
  3301 Eagle St. Suite 301
  Anchorage, AK 99503-4149
  Phone: 1-907-269-4900
  [www.labor.state.ak.us/lss/whhome.htm](http://www.labor.state.ak.us/lss/whhome.htm)

• **Occupational Safety and Health Act (OSHA)**
  Contact: Department of Labor and Workforce Development
  Division of Labor Standards and Safety
  Occupational Safety and Health Section
  Juneau: 1-907-465-4855
  Anchorage: 1-907-269-4955
  [labor.state.ak.us/lss/oshhome.htm](http://labor.state.ak.us/lss/oshhome.htm)

• **Workers' Compensation**
  Contact: Department of Labor and Workforce Development
  Division of Workers' Compensation
  P.O. Box 115512
  Juneau, AK 99811
  1-907-465-2790
  [labor.state.ak.us/wc/exit.html](http://labor.state.ak.us/wc/exit.html)

• **Social Security (FICA)**
  Contact: Department of Administration
  Division of Retirement and Benefits
  Social Security Administrator
  P.O. Box 110203
  Juneau, AK 99811-0203
  1-907-465-5707
Chapter 1 Review
Federal and State Labor Laws

1. FLSA stands for
   a. Fair Labor Standards Act
   b. Future Labor Statistics Act
   c. Federal Library Standards Account
   d. Federal Labor Systems Assistance

2. At year end, an employer must use IRS Form 1099-MISC if the employer paid more than $600 in the calendar year to any of the following: (Circle all that apply)
   a. An independent contractor
   b. Stipends to a council member to attend meetings
   c. Regular employees after running out of W-2 forms

3. True or False: An independent contractor is subject to backup withholding if he or she does not provide a valid Social Security Number or Employer Identification Number.

4. True or False: Store all pay records, including time cards, for one year.

5. True or False: FICA is better known as Social Security and Medicare Tax.

6. True or False: FICA is paid only by the employee through withholdings from paychecks.

7. True or False: Employees generally set their own hours, use their own tools and directly risk profit or loss based on how and when their work is done.

8. True or False: Reporting and depositing FICA taxes is the responsibility of the employer.

9. True or False: The federal Davis-Bacon Act only applies to contracts for the construction, alteration, or repair of public buildings financed with federal money.
10. **FUTA stands for:**
   a. Future Uplifting Tax Appraisal
   b. Federal Unemployment Tax Act
   c. Federal Unemployment Training Act
   d. Former Underworld Tax Assessors

11. **True or False:** FUTA taxes are paid by municipalities to cover unemployment benefits for terminated workers.

12. **True or False:** Some parts of the Alaska Wage and Hour Act do not apply to municipalities.

13. **The “Request for Taxpayer Identification Number and Certification” is IRS form**
   a. W-2
   b. W-4
   c. I-9
   d. W-9

14. **ESA stands for:**
   a. Employment Security Act
   b. Employee Security Association
   c. Employment Social Administration
   d. Evaluation of Social Actions

15. **The ESA requires payroll records be kept for at least:**
   a. One year
   b. Three years
   c. Five years
   d. Seven years
Chapter 1 Review
Federal State and Labor Laws: Answer Sheet

1. [a.] Fair Labor Standards Act

2. [a.] An independent contractor

3. [True.]

4. [False.] FLSA requires three years retention of pay records. ESA requires five years. Extra records, such as time cards, must be kept four years.

5. [True.]

6. [False.] Employer and employee pay a contribution to the Social Security and Medicare Tax.

7. [False.] Contractors do those things.

8. [True.]

9. [True.]


11. [False.] Municipalities are exempt from FUTA.

12. [True.]

13. [d.] W-9


15. [c.] Five years
CHAPTER 2: PAYROLL AND PERSONNEL RECORDS

Keeping good payroll records will help you:

- Comply with federal and state tax laws
- Make sure workers are paid correctly
- Keep track of labor costs for community projects
- Help forecast labor costs

Records Needed to Prepare Payroll

A good payroll accounting system keeps basic information on each employee. These files include:

- **Personnel Files**
  - W-4 forms
  - I-9 forms
  - Pay rate history records

- **Payroll Documents**
  - Time cards or time sheets
  - Individual pay records
  - Payroll journal
  - Statement of earnings and deductions
  - Tax deposit records
  - Copies of quarterly and annual tax reports
  - Annual and sick leave records
**Personnel Files**

Keep a separate personnel file for each employee that includes:
- Job application;
- Resume (if required);
- Hiring notice;
- Completed I-9 form (see Immigration Reform and Control Act for additional information);
- Form W-4: Employee’s Withholding Allowance Certificate;
- Employee ratings/evaluations;
- Work history of the employee (promotions, job changes, duties, work hours)
- Pay rate history and current rate;
- Payroll documents; and
- Annual wage and tax statements (IRS Form W-2).

As bookkeeper you need access to the personnel files. *However, access by other people is restricted because much of the information in the personnel files is confidential.* The employee may authorize others to inspect his or her personnel file. This authorization should be in writing from the employee.

For payroll record keeping, the most important items in the personnel files for each employee are:
- Form W-4: Employee’s Withholding Allowance Certificate
- Pay rate history records
Form W-4

Each employee is required to submit an IRS Form W-4 to the employer. The W-4 shows the number of withholding allowances claimed by an employee and is used to calculate the amount of federal income tax withheld from payroll checks.

The W-4 is filled out by each employee when he or she is hired and before the employee starts work. If the employee wants to change the number of withholding allowances claimed, a new W-4 must be submitted.

Employers are not required to get a new W-4 from employees each year, but should offer employees a chance to update their W-4. You can get W-4 forms and related publications for each new employee from the IRS.

If an employee does not provide a signed W-4 by the time you are ready to do their first payroll, then process the employee’s pay with zero allowances.
Form I-9
The purpose of the Department of Homeland Security, U.S. Citizenship and Immigration Services Form I-9: Employment Eligibility Verification is to document that each new employee (both citizen and non-citizen) hired after November 6, 1986, and working in the United States must complete a Form I-9. All employees (citizens and non-citizens) hired after November 6, 1986, and working in the United States must complete a Form I-9. This information will be used by employers as a record of their basis for determining eligibility of an employee to work in the United States.

Employers must retain the completed Form I-9. Form I-9 is accompanied by a complete list of acceptable documents which categorizes the types of documents necessary for establishing identity and employment authorization. See the next page for sample forms of I-9 and the list of acceptable documents.
# Lists of Acceptable Documents

All documents must be UNEXPIRED

Employees may present one selection from List A or a combination of one selection from List B and one selection from List C.

<table>
<thead>
<tr>
<th>LIST A</th>
<th>Documents that Establish Both Identity and Employment Authorization</th>
<th>LIST B</th>
<th>Documents that Establish Identity</th>
<th>LIST C</th>
<th>Documents that Establish Employment Authorization</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. U.S. Passport or U.S. Passport Card</td>
<td>1. Driver's license or ID card issued by a State or outlying possession of the United States provided it contains a photograph or information such as name, date of birth, gender, height, eye color, and address</td>
<td>1. A Social Security Account Number card, unless the card includes one of the following restrictions: (1) NOT VALID FOR EMPLOYMENT (2) VALID FOR WORK ONLY WITH INS AUTHORIZATION (3) VALID FOR WORK ONLY WITH DHS AUTHORIZATION</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Permanent Resident Card or Alien Registration Receipt Card (Form I-551)</td>
<td>2. ID card issued by federal, state or local government agencies or entities, provided it contains a photograph or information such as name, date of birth, gender, height, eye color, and address</td>
<td>2. Certification of report of birth issued by the Department of State (Forms DS-1350, FS-545, FS-240)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Foreign passport that contains a temporary I-551 stamp or temporary I-551 printed notation on a machine-readable immigrant visa</td>
<td>3. School ID card with a photograph</td>
<td>3. Original or certified copy of birth certificate issued by a State, county, municipal authority, or territory of the United States bearing an official seal</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 5. For a nonimmigrant alien authorized to work for a specific employer because of his or her status:  
   a. Foreign passport; and  
   b. Form I-94 or Form I-94A that has the following:  
      (1) The same name as the passport; and  
      (2) An endorsement of the alien's nonimmigrant status as long as that period of endorsement has not yet expired and the proposed employment is not in conflict with any restrictions or limitations identified on the form. | 5. U.S. Military card or draft record | 5. U.S. Citizen ID Card (Form I-197) |
| 6. Passport from the Federated States of Micronesia (FSM) or the Republic of the Marshall Islands (RMI) with Form I-94 or Form I-94A indicating nonimmigrant admission under the Compact of Free Association Between the United States and the FSM or RMI | 6. Military dependent's ID card | 6. Identification Card for Use of Resident Citizen in the United States (Form I-179) |
| | 7. U.S. Coast Guard Merchant Mariner Card | 7. Employment authorization document issued by the Department of Homeland Security |
| | 8. Native American tribal document | | | | |
| | 9. Driver's license issued by a Canadian government authority | | | | |

### For persons under age 18 who are unable to present a document listed above:

| 10. School record or report card |
| 11. Clinic, doctor, or hospital record |
| 12. Day-care or nursery school record |

Examples of many of these documents appear in Part 13 of the Handbook for Employers (M-274).

Refer to the instructions for more information about acceptable receipts.
Pay Rate History Records

The pay rate record shows how much the employee is paid per hour worked. This rate is used to calculate the employee’s gross pay.

The pay rate history record shows the person’s wage rate at the time of hiring. It also shows any changes in the wage rate because of promotion, demotion, cost-of-living adjustment (COLA), shift in job position, or other reason. The effective dates of all wage rate changes are also recorded.
**Instructions for Completing a Pay Rate History Record**
The pay rate history record should include the following information (numbered items in the list below correspond with the numbers on the illustration):

1. Employee’s name as shown on the W-4 form
2. Employee's Social Security Number as shown on the W-4 form
3. Date the employee was hired
4. Employee's marital status for income tax purposes (M for married, S for single)
5. Number of allowances claimed for income tax purposes as shown on W-4
6. Employee classification as hourly or salaried
7. Date of pay rate change
8. Amount of new pay rate
9. Reason for entry in record, such as “new hire,” “COLA” or “promotion.”

<table>
<thead>
<tr>
<th>PAY RATE HISTORY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Name</td>
</tr>
<tr>
<td>Social Security Number</td>
</tr>
<tr>
<td>Date of Hire</td>
</tr>
<tr>
<td>No. Exempts</td>
</tr>
<tr>
<td>Date</td>
</tr>
<tr>
<td>(7)</td>
</tr>
</tbody>
</table>
Payroll Documents

Time Sheets
To calculate payroll, you need to know the hours worked by each employee. This information is recorded on a time sheet or card filled out by the employee and approved by the supervisor. Each day the employee fills in the hours worked and records any leave used. Each employee completes his or her own time sheet.

At the end of the pay period, the employee must sign and date the time sheet, and attach any leave forms to support authorized sick leave or annual leave (personal or vacation time) used. Time sheets and leave forms are signed by both the employee and supervisor. The supervisor must review time sheets and leave forms to make sure the information is correct, and then sign them. Unsigned time sheets or leave forms should be returned to the supervisor before you calculate any wages.

You should also review each time sheet for mistakes and tell the manager or supervisor if you detect any problems.

Instructions for Filling Out Time Cards or Time Sheets

Time cards or time sheets should have the following information. See corresponding number in parenthesis on the Time Sheet illustration.

1. Employee's full name (no nicknames) and date
2. Employee’s Social Security number or Employee Number
3. Pay period dates
4. Spaces for each day in the time period
5. Spaces for the type of time recorded for each day (regular hours, overtime hours, annual leave, sick leave, holiday, and other)
6. Employee’s signature
7. Supervisor’s signature
8. Department or account the wages are charged to (assuming the city or village has employees working for different departments or accounts)
TIME SHEET - GENERAL

(1) Employee ___________________________ Date ____________

(2) Employee Social Security Number ________ - ________ - ________

(3) Pay Period: From __/__/____ To __/__/____

| Date | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | Total |
|------|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
|      |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |

Regular Hours

Overtime Hours

Annual Leave

Sick Leave

Holiday (Regular Time)

Holiday (Overtime)

Other

Total Hours

Employee Signature (6) __________________________________________

Supervisor (7) ________________________________________________

Charge to: _________________________________________________
Don't throw away time sheets after doing the payroll. Time sheets must be saved. Federal and state regulations require time sheets be kept at least two years in case of wage disputes. Put them in the employee’s file with a copy of the paycheck. If questions come up about how much money an employee earned, the time sheets will help prove the payroll checks were correct.

Leave Authorization
Some communities use leave authorization forms to record annual, sick, and other types of leave. Review your personnel policies to ensure leave is dealt with correctly by supervisors, employees, and yourself.

When leave authorization forms are used, the employee submits a request for leave to the supervisor. If the supervisor approves the leave request, the employee has an excused absence. After the employee returns from leave, the employee and supervisor sign the leave request form, confirming the amount of leave taken. The supervisor sends the leave slip to the bookkeeper. The bookkeeper adjusts the paycheck if the amount of pay for the pay period is affected. The leave slips are put in the employee’s personnel file.

Leave slips are used by larger communities. Smaller communities may not need them. However, leave taken by an employee must be recorded on the time sheet even if leave slips aren’t used.
**Payroll Journal**

A payroll journal shows wages and deductions for all employees. It includes a summary of wages and deductions for each pay period. A separate summary sheet may be kept for each employee. In a computerized system, your software will automatically maintain and update your payroll journal, as long as it is set up properly and you enter the payroll information correctly. In a manual recordkeeping system, you will have to update and maintain the payroll journal yourself.

**Pay Records**

The payroll journal includes a separate summary sheet of earnings and deductions (pay periods, the pay rate, hours worked, gross earnings, federal tax withheld, other deductions, net pay, and payroll check number) per pay period for each employee. These pay records are used to calculate payroll and tax information for each employee for the quarter (three-month period) and calendar year. Each quarter, the information from each pay period is added together to give you the total earnings and deductions for that employee. Use the totals at the end of the year to fill out the employee’s W-2 wage statement and any annual tax reports. (See Chapter 3 “Year End Reports,” for more information on W-2 wage statements.) The pay records are also used to make sure that no additional money is withheld after wage deductions have exceeded the limits for FICA and ESC payments.

**Payroll Records**

These records are permanent files (50 years) and are archived (safely stored outside the file drawers) after two years, they may be stored in a safe location. The payroll journal shows the combined payroll information for all employees per pay period. This information comes from the pay record of each employee.
The payroll journal comes in different forms, depending on the supplier. You can also make a payroll journal using a columnar pad. In any case, the information shown on the example below should be included. The example payroll journal sheet organizes the employee wage and tax information by departments. Separating payroll information by department makes it easy to figure which costs should be charged to each department.

Information from the payroll journal is used to fill out quarterly tax reports. (This activity is explained in the next chapter.) This information must be retained for four years.

<table>
<thead>
<tr>
<th>DEPARTMENT / NAME</th>
<th>RATE OF PAY</th>
<th>Reg. Hrs</th>
<th>OT Hrs</th>
<th>EARNINGS</th>
<th>DEDUCTIONS</th>
<th>Net Pay</th>
<th>Chk. No.</th>
<th>Date of Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADMINISTRATION</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL ADMINISTRATION</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>PUBLIC SAFETY</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>TOTAL PUBLIC SAFETY</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PUBLIC WORKS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL PUBLIC WORKS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL ALL DEPARTMENTS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Statement of Earnings and Deductions

The statement of earnings and deductions is given to the employee with his or her paycheck. It shows the employee’s earnings and deductions for the pay period. Often, the statement is simply a payroll check stub. Paychecks can be ordered with check stubs that serve as statements of earnings and deductions. Use information from the pay record or payroll journal to fill out the statement of earnings and deductions. A computerized payroll program, such as QuickBooks, will calculate the earnings and deductions information for you and enter it on the pay stub. In a manual system, you will need to calculate the information and enter it on the pay stub yourself.
The statement of earnings and deductions can also be a form separate from the check, as shown below.

Statement of earnings and deductions separate from the payroll check:

![Statement of Earnings and Deductions Form]

City of Pacific  
P.O. Box 423  
Pacific, Alaska 99909  
Phone (907-567-8901

PAY  
TO THE ORDER OF  

$_________________________  

Dollars  

FOR  

AUTHORIZED SIGNATURE  

#1017  

DATE ________________  

Authorized Signature  

Authorized Signature  

0001  

123456789  

123456789000  

Page 37
Chapter 2 Review
Payroll and Personnel Records

1. True or False: A personnel file should be set up for each new employee.

2. Personnel files should contain at least:
   a. Employment application
   b. Social Security Number
   c. Hiring notice to employee
   d. Result of reference checks
   e. Copies of W-4 forms
   f. Copy of employee's income tax return from last year

3. True or False: A W-4 identifies how many allowances the employee claims.

4. True or False: Employees must return a completed W-4 within one week of being hired.

5. True or False: Personnel files are confidential and shouldn't be available to anyone unless the employee has given written permission.

6. True or False: Personnel files should include a pay rate history record.

7. True or False: Time sheets show the hours worked by an employee and should be kept for a few months in case a dispute over a paycheck comes up.

8. True or False: Time sheets are signed by the bookkeeper only.

9. True or False: Pay records show earnings and deductions of an employee for each payroll.

10. True or False: Pay records are files that can be thrown away after two years.

11. True or False: Pay records are used to record payroll information in the payroll journal for all employees.

12. True or False: Use the payroll journal to fill out quarterly tax reports.
Chapter 2 Review
Payroll and Personnel Records: Answer Sheet

1. [True]

2. Personnel files should include at least:
   a. Employment application
   b. Social Security Number
   c. Hiring notice to employee
   d. Result of reference checks
   e. Copies of W-4 forms

3. [True]

4. [False] W-4 must be completed before beginning work.

5. [False] Personnel files are confidential. Only authorized individuals should have access, and employee permission isn't needed for those authorized individuals.

6. [True]

7. [False] Keep time sheets a minimum of two years.

8. [False] Time sheets must be signed by both the employee and the supervisor.

9. [True]

10. [False]

11. [True]

12. [True]
CHAPTER 3: PAYROLL CALCULATIONS AND REPORTING

You need to be accurate when calculating payroll because:

♦ You want to pay employee, the IRS, and the state the correct amounts.
♦ Most employees don't know the withholding rules well enough to catch mistakes.
♦ Correcting mistakes in withholding deductions after payroll checks have been written is time consuming and difficult.

How to Calculate Payroll and Pay Taxes

Step 1. Get Federal and State Employer Identification Numbers
Every employer must have a Federal Employer Identification Number (EIN) from the IRS. If your organization has been an employer in the past, it probably already has an EIN. Do not apply for more than one EIN. It is not necessary to get a separate EIN for a grant project! An example of a completed application for a federal EIN is provided on the next page (Form SS-4).

If it is necessary to get an EIN and you indicate on the Form SS-4 application that you will have employees, you will be pre-enrolled in the Electronic Federal Tax Payment System (EFTPS). When you make employment tax payments to the federal government, you must use EFTPS. As of January 1, 2011, paper tax deposit coupons can no longer be used. You will receive information in your EIN Package about Express Enrollment. You will also receive an additional mailing containing your EFTPS personal identification number (PIN) and instructions for activating your PIN so that you can begin to use EFTPS.
### Application for Employer Identification Number

For use by employers, corporations, partnerships, trusts, estates, churches, government agencies, Indian tribal entities, certain individuals, and others.

<table>
<thead>
<tr>
<th>Field</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Legal name of entity (or individual) for whom the EIN is being requested</td>
</tr>
<tr>
<td>2</td>
<td>Trade name of business (if different from name on line 1)</td>
</tr>
<tr>
<td>3</td>
<td>Executor, administrator, trustee, “care of” name</td>
</tr>
<tr>
<td>4a</td>
<td>Mailing address (room, apt., suite no. and street, or P.O. box)</td>
</tr>
<tr>
<td>5a</td>
<td>Street address (if different) (Do not enter a P.O. box.)</td>
</tr>
<tr>
<td>5b</td>
<td>City, state, and ZIP code (if foreign, see instructions)</td>
</tr>
<tr>
<td>6</td>
<td>County and state where principal business is located</td>
</tr>
<tr>
<td>7a</td>
<td>Name of responsible party</td>
</tr>
<tr>
<td>7b</td>
<td>SSN, ITIN, or EIN</td>
</tr>
<tr>
<td>8a</td>
<td>Is this application for a limited liability company (LLC)</td>
</tr>
<tr>
<td>8b</td>
<td>If 8a is “Yes,” enter the number of LLC members</td>
</tr>
<tr>
<td>8c</td>
<td>If 8a is “Yes,” was the LLC organized in the United States?</td>
</tr>
<tr>
<td>9a</td>
<td>Type of entity (check only one box), Caution. If 8a is “Yes,” see the instructions for the correct box to check.</td>
</tr>
<tr>
<td>9b</td>
<td>If a corporation, name the state or foreign country (if applicable) where incorporated</td>
</tr>
<tr>
<td>10</td>
<td>Reason for applying (check only one box)</td>
</tr>
<tr>
<td>11</td>
<td>Date business started or acquired (month, day, year). See instructions.</td>
</tr>
<tr>
<td>12</td>
<td>Closing month of accounting year</td>
</tr>
<tr>
<td>13</td>
<td>Highest number of employees expected in the next 12 months (enter –0– if none). If no employees expected, skip line 14.</td>
</tr>
<tr>
<td>14</td>
<td>If you expect your employment tax liability to be $1,000 or less in a full calendar year and want to file Form 944 annually instead of Forms 941 quarterly, check here. (Your employment tax liability generally will be $1,000 or less if you expect to pay $4,000 or less in total wages.) If you do not check this box, you must file Form 941 for every quarter.</td>
</tr>
<tr>
<td>15</td>
<td>First date wages or annuities were paid (month, day, year). Note. If applicant is a withholding agent, enter date income will first be paid to nonresident alien (month, day, year)</td>
</tr>
<tr>
<td>16</td>
<td>Check one box that best describes the principal activity of your business.</td>
</tr>
<tr>
<td>17</td>
<td>Indicate principal line of merchandise sold, specific construction work done, products produced, or services provided.</td>
</tr>
<tr>
<td>18</td>
<td>Has the applicant entity shown on line 1 ever applied for and received an EIN?</td>
</tr>
</tbody>
</table>

**Third Party Designee**

Complete this section only if you want to authorize the named individual to receive the entity’s EIN and answer questions about the completion of this form.

<table>
<thead>
<tr>
<th>Field</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designee’s name</td>
<td></td>
</tr>
<tr>
<td>Designee’s telephone number (include area code)</td>
<td></td>
</tr>
<tr>
<td>Address and ZIP code</td>
<td></td>
</tr>
<tr>
<td>Designee’s fax number (include area code)</td>
<td></td>
</tr>
</tbody>
</table>

Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief, it is true, correct, and complete. Name and title (type or print clearly)

**Applicant’s telephone number (include area code)**

**Applicant’s fax number (include area code)**

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.
You must also register with the Department of Labor and Workforce Development (AKDOL), Employment Security Division to obtain a state employer tax account number. Contact the nearest Field Tax Office and ask for an Alaska Employer Registration Form. (See below.) You can also obtain this form online at: http://www.labor.state.ak.us/estax/forms/AER.pdf.

<table>
<thead>
<tr>
<th>Alaska Employer Registration Form</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alaska Department of Labor and Workforce Development</strong></td>
</tr>
<tr>
<td><strong>Employment Security Tax</strong></td>
</tr>
<tr>
<td>P.O. Box 115509, Juneau, AK 99811-5509</td>
</tr>
</tbody>
</table>

**Complete Both Sides of Form**

<table>
<thead>
<tr>
<th>Type of Business:</th>
<th>D</th>
<th>Corporation</th>
<th>D</th>
<th>Limited Liability Company (LLC)</th>
<th>D</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>D</td>
<td>Yes</td>
<td>No</td>
<td>If Yes, see Page 4</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>What is the date your business first paid wages in Alaska or the anticipated date you will pay wages?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month</td>
</tr>
<tr>
<td>Your account will be opened this day:</td>
</tr>
<tr>
<td>Your rate will be determined by completion of Form 17:</td>
</tr>
<tr>
<td>Your gross income from Form 17:</td>
</tr>
</tbody>
</table>

Complete the Employer Registration Form, make a copy for filing, and mail the original to the address shown on the top of the form.

The AKDOL will assign an account number after it reviews your application. The account number links the employer with payments of State Unemployment Insurance tax (SUI), also known as Employment Security Contribution (ESC).

When AKDOL assigns an account number, it will send Employment Security tax forms and instructions. Keep this paperwork handy; you'll need it to make tax deposits and file your reports. Only apply for an account number once. Before applying, make sure your community hasn't already been assigned a number.
Employer information is available on the Internet at: [www.labor.state.ak.us/estax](http://www.labor.state.ak.us/estax)
You can also e-mail questions to: [esd_tax@labor.state.ak.us](mailto:esd_tax@labor.state.ak.us)

<table>
<thead>
<tr>
<th>State of Alaska</th>
<th>Department of Labor and Workforce Development</th>
<th>Employment Security Tax Offices</th>
</tr>
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Step 2. Get Employee Information

As discussed in Chapter 2, when an employee is hired, he or she must submit a W-4 form showing how many withholding allowances the employee is claiming. You will need this information to calculate how much federal income tax to withhold from that employee's pay.

If you are using a manual payroll system, put the employee's Social Security number, number of allowances claimed, and current rate of pay on the pay record card for that employee. Setting up the card with the correct information will save you time when you calculate payroll.
Step 3. Calculate Payroll
Collect time sheets for each employee. Make sure the time sheets are signed by both the employee and the supervisor and that leave authorization forms (if needed) are attached and signed. Add the hours worked for each employee. Put this information on each employee's pay record.

Calculation of Gross Pay
(80 hrs x $9.80) + (4 hrs x 14.70) = $842.80
On the pay record enter whether hours worked are regular or overtime hours. Remember, in most cases, for hourly employees any time exceeding forty hours per week or eight hours per day is overtime and paid at one and a half times the normal rate of pay. You will need this information to calculate gross pay.

Gross pay is different from net or “take home” pay. Before writing the employee's paycheck, you must withhold the amount each employee owes the federal and state governments for taxes, Social Security, Medicare and unemployment insurance, as well as any other deductions (employee benefit programs, child support payments, employee advances).

**Gross pay** is the amount of pay earned by an employee before any deductions. It is calculated by multiplying the number of hours (hours worked, hours of paid leave, etc.) by the rate of pay (regular rate, and overtime rate if applicable).

**Net pay** is the amount paid to an employee after all deductions. It is the amount the employee would “take home”.

---

**Calculate Federal Income Tax Withholding**

It's easy to determine federal income tax withholdings for each employee using the correct table in *Circular E*. 
Publication 15
Cat. No. 10000W

(Circular E), Employer's Tax Guide
For use in 20XX

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Future Developments
For the latest information about developments related to Pub. 15, such as legislation enacted after it was published, go to IRS.gov/pub15.

What's New
Social security and Medicare tax for 20XX. The social security tax rate is 6.2% each for the employee and employer, unchanged from 2016. The social security wage base limit is $127,200.
Calculate Social Security (FICA) Tax
As the bookkeeper for a city or borough, you must determine whether your municipality belongs to the Social Security system. If your community is unincorporated, it is in the Social Security system. If you are a tribe or tribally owned entity, you participate in the Social Security system and all employee wages are subject to both Social Security tax and Medicare tax.

Important Notice to Municipalities

Municipalities participate in the Social Security system or another approved retirement plan. A municipality not in an approved retirement plan should be in the Social Security system and pay the full FICA tax.

Whether or not a community participates in the Social Security system, the portion of FICA payments supporting Hospital Insurance (Medicare) must be withheld for any employee hired after March 31, 1986. This requirement is especially important for municipalities! Many municipalities are not aware of the FICA withholding requirement. If you participate in the Social Security system and pay the full FICA tax, the Medicare portion is already covered.

Determine whether an employee's wages are affected by any of the following:

- Full FICA taxes (Social Security and Medicare)
- Medicare portion only
- None of the FICA taxes (certain types of employees hired before March 31, 1986, and if the municipality was in another retirement plan as of July 1, 1991)

Next, calculate the FICA withholding by multiplying the gross wage by the current Social Security tax rate and the Medicare tax rate. Together these amounts represent the total FICA tax due. You must calculate and report Social Security and Medicare taxes separately.

In 1994, the wage base limit for Medicare was eliminated; thereafter, all wages are subject to Medicare tax. Social Security, however, has a wage base limit. Refer to Circular E for current yearly information.
Example: How to Calculate FICA
(Social Security and Medicare)

Gross wages earned this pay period equal $842.80.

If the employer is in the Social Security system, calculate how much Social Security taxes are withheld from the employee's wages by multiplying the wages by the current Social Security tax rate. Once an employee’s wages exceed the wage limit, do not withhold any more Social Security tax. Refer to IRS Publication 15: (Circular E) Employer’s Tax Guide at the beginning of every year to determine the changes in yearly wage limits or tax rates.

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<tr>
<td>$842.80 x .062 = $52.25</td>
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</table>

Calculation of Social Security from the employer

$842.80 x 6.2% = $48.60
or $842.80 x .062 = $48.608

Next, calculate the Medicare tax portion of FICA. The current Medicare tax rate is 1.45% of gross wages.

<table>
<thead>
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<tr>
<td>or $842.80 x .0145 = $11.368</td>
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ALL wages are subject to Medicare tax. There is no wage limit.

If the employer is not in the Social Security system but the employee was hired after March 31, 1986, withhold only the Medicare portion of the tax. Add the Social Security tax and Medicare tax. This sum equals the total employee FICA withholding.

---

1 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. Apr 14, 2017
Page 50
Employers In, Out, and Opting Out of Social Security

Employers Participating in Social Security

Political subdivision employers who chose to provide retirement benefits to their employees signed Section 218 Agreements with the Social Security Administration so that their employees could use Social Security as a retirement benefit. Most of these Section 218 Agreements were signed in the 1960s and 1970s.

- Prior to April 1, 1983 employers could amend their 218 agreements and opt out of Social Security and Medicare.

- After July 1, 1991, this option was no longer available to employees who are not enrolled into a Section 218 Agreement and not enrolled in Social Security or qualified plan. The employers must report all employees to Social Security and Medicare. In qualified plans the employees cannot be enrolled in Social Security; but must participate in Medicare.

An employer with a Section 218 Agreement cannot opt out of Social Security reporting.

Employers Not Participating in Social Security

Many political subdivision employers chose to drop their 218 Agreements when the Public Employees' Retirement System (PERS) was established in 1961. They opted out of their Social Security agreements by enacting amendments.

- Cities and boroughs are not required to participate in the Social Security portion of FICA if they were in an approved retirement program prior to July 1, 1991 and do not have and active Section 218 Agreement.

- Whether participating in Social Security or not, all employees hired after March 31, 1986, and their employers must pay the Medicare tax portion of FICA.
Certain Employers May Opt Out of Social Security

Employers who are not in a retirement system (qualified plan) and were forced into Social Security in 1991 can now choose to join a qualified plan such as PERS, and drop Social Security reporting for employees eligible to participate in the qualified retirement plan.

- Only full-time and part-time employees are eligible.
- Employees who are temporary, substitutes, or nonpermanent are not eligible. These employees must have Social Security withheld and reported for them.
- Whether participating in Social Security or not, all employees hired after March 31, 1986, and their employers must pay the Medicare tax portion of FICA.

Employers cannot opt out of Social Security if they were already in a retirement system prior to July 1, 1991, and were participating in Social Security. These employers have already established their relationship with the Social Security Administration and cannot change these presumed or written agreements.

For more information, contact the Division of Retirement and Benefits in Juneau at 907-465-5707 or 907-465-4469.

Or learn more at the Division of Retirements and Benefits website: [http://doa.alaska.gov/drb/](http://doa.alaska.gov/drb/).
Calculate Employment Security Withholding Tax

Alaska Unemployment Insurance (UI) program, also commonly referred to as the Employment Security (ES) tax program pays benefits to eligible unemployment workers. A person pays into this program while working, and may later receive some unemployment benefits when not working. To calculate the amount of (ES) tax to withhold from an employee's paycheck, multiply the gross wages by the employee ES tax rate. ES withholding tax is withheld only for a set maximum amount of wages. Any wages earned above this limit aren't taxed. For 2012, the employee ES tax rate is .62%; the taxable wage base is $35,800.

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<td>$784 x .0062 = 4.82 = $4.86</td>
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</table>

To avoid any shortage in taxes for the employer, 4.8608 is rounded up to 4.86.

Contact the nearest Field Tax Office in the Alaska DOL, Division of Employment Security, for information on current ES tax rates and the taxable wage base. Field Tax Offices are found in the beginning of this chapter or online on the Employment Security Tax FAQs page at:
[http://www.labor.state.ak.us/estax/faq/w1.htm](http://www.labor.state.ak.us/estax/faq/w1.htm)

For most small communities, federal income, Social Security, Medicare, and ES taxes are the only withholdings from employee paychecks. However, additional deductions may be required if your community participates in retirement, health insurance, or other benefit programs.

Assuming there are no other deductions, complete the pay record for each employee based on the previous directions.
Step 4. Make Out the Paychecks
Payroll checks usually have two stubs: one remains in the checkbook and one is given to the employee with the paycheck. These stubs are the statements of earnings and deductions. The stubs show information taken from the pay record, including: hours worked, rate of pay, gross pay, amount of each deduction, and amount of net pay.

Fill out the stubs, and then complete the paycheck.

If you make an error, write “VOID” across the check and on the stub. Tear out the voided check and file it with other voided checks in case an auditor wants to see it.
As you write each payroll check, remember to adjust the balance remaining in your checking account. Make sure you have enough money in the account to cover your payroll and taxes. "Bounced checks" create bad feelings and result in added expense for bank charges and time spent correcting the mistakes. The bank may eventually refuse your business if bounced checks happen regularly.

**Step 5. Complete Payroll Records**

After you've made out the paychecks, your job isn't complete. Payroll records must be filled out and the taxes withheld must be paid along with the employer’s share of taxes (Social Security, Medicare, ES, and possibly FUTA).

First, transfer the information from each employee's payroll record to the payroll journal. Here is a step-by-step example of how to transfer information from the payroll records to the payroll journal.
Chapter 3 – Payroll Calculations and Reporting

Payroll Handbook

Filling Out a Payroll Journal

1. Record the beginning and ending dates of the payroll period in the spaces marked "Payroll Period from _________ to _________.” The last date should agree with the "period ending" date on the pay record.

2. Put the employee's name from the pay record under the proper department in the "name" column. For example, John George is under Public Works.

3. Record the employee's pay rate from the pay record.

4. Record the payroll information (hours, pay, deductions, and net pay) from the pay record.

5. Record the check number from the pay record to the payroll journal.

6. Add the payroll information (hours, pay, deductions, and net pay) for all the employees within each department to obtain the department totals.

7. Finally, add the taxes for the employees of all departments. This sum is a total of all employee taxes withheld. It is used to figure total taxes owed.

### PAYROLL JOURNAL

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<th>RATE OF PAY</th>
<th>REG. HRS</th>
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Page 56
After all the information has been recorded in the payroll journal, the journal should be "closed." Below are instructions on how to close the journal.

**Closing a Payroll Journal**

1. Total the amounts for each department if you haven't done so already. This sum shows how many hours were worked, how much pay was earned by the employees, how much was withheld, and how much was actually paid.

2. Add the totals of the regular and overtime earnings columns for all departments. This sum must equal the total of the gross pay column. This step is a test to make sure you have calculated gross pay correctly.

3. Subtract the totals of the deductions columns from the total of the gross pay column for all departments. The result must equal the total of the net pay column. This test verifies that you have calculated net pay correctly.

---

**PAYROLL JOURNAL**

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2. $2988.80 + $352.80 = $3104.80

3. $189.00 + $192.50 + $45.02 + $192.50 = $619.01

$3104.80 - $619.01 = $2485.79
Step 6. Pay the Payroll Taxes: Make Deposits
The last step is to pay the taxes you owe and the employees' withheld taxes to the federal and state governments. The payroll journal is your basic source of information when figuring and paying federal and state taxes. Using the payroll journal, you can determine:

- The date the employee was paid, which determines the quarter in which the taxes are paid and reported to the federal and state governments;
- The amount of taxes withheld from employees' wages and paid to the IRS and the state;
- The date the employee was paid, which determines the quarter in which the taxes are paid and reported to the federal and state governments;
- The employer’s contribution for Social Security, Medicare, and ES tax; and
- The municipal department(s) charged for payroll taxes.

Federal Income Tax and EFTPS (Social Security and Medicare)
Federal income, Social Security, and Medicare taxes are paid to the federal government with the same check. Social Security and Medicare require equal payments from the employee and employer. To determine how much your community owes the federal government for withheld income tax, Social Security, and Medicare tax:

- Total federal taxes withheld from employee wages
- Employee Social Security tax (Social security wages paid x 6.2%)
- Employer Social Security tax (Social security wages paid x 6.2%)
- Employee Medicare tax (Gross wages paid x 1.45%)
- Employer Medicare tax (Gross wages paid x 1.45%)

This sum is the amount you must pay the federal government. The IRS requires you to deposit the payments by using the Electronic Federal Tax Payment System (EFTPS). Make sure to check IRS Publication 15: Circular E at the beginning of each year to see if Social Security and Medicare rates and wage limits have changed). For information on how to use EFTPS, please use the information on the next page.
Electronic Federal Tax Payment System (EFTPS)
The EFTPS is a service from the U.S. Department of Treasury. This service is free and is a convenient way to make federal tax payments online or by telephone 24 hours a day, 7 days a week. Businesses can schedule payment through EFTPS up to 120 days in advance, once the payroll tax liability has been determined.

You will need to enroll, if your entity has not already done so, at www.eftps.gov. Here is a list of information that you will need to register on the EFTPS:

- Tax Payer Number: Employer Identification Number (EIN)
- Banking Information (Account Number and Routing Number)
- Name and Address as they appear on IRS tax documents

How to Enroll:

1. Go to www.eftps.gov
2. Click on the ‘ENROLLMENT’ tab
3. Follow all instructions and enter information where appropriate
4. Select either a Business, Individual, or Federal Agency
5. Submit
6. You will get a temporary password and a PIN will be sent to you via postal mail within seven business days.

You can also contact the EFTPS Customer Support for:

- Business: 1-800-555-4477
- Individual: 1-800-316-6541
- Federal Agencies: 1-877-333-8292

There are other options such as: en Español, TDD, Batch providers, Financial Institution Employees, and a non-toll-free Number at the CONTACT US or at https://www.eftps.gov/eftps/index.jsp.
To make sure federal income and Social Security taxes are correct, use the *Federal Payroll Tax Liability Worksheet.*

**Federal Payroll Tax Liability Worksheet**  
Complete each time you issue payroll checks.

**for Pay Period Ending (PPE) ______________**  

Enter the total Social Security portion withheld from employees from your payroll journal: (4.2%)  
$__________ Line 1

Enter the total Social Security portion withheld from employers from your payroll journal: (6.2%)  
$__________ Line 2

Enter the total Medicare Tax portion withheld from employees from your payroll journal:  
$__________ Line 3

**Computation of Federal Tax Liability:**

A. Total Social Security Tax:  
(Line 1 + Line 2)  
$__________ Line 4

B. Total Medicare Tax: Double the amount on Line 2 above.  
$__________ Line 5

C. Enter the total federal income tax withheld from employees:  
(Use the total federal withholding taxes from your payroll journal for the pay period.)  
$__________ Line 6

Total Federal payroll tax liability for this payroll:  
(Line 4 + Line 5 + Line 6 = Line 7)  
$__________ Line 7

**EFTPS Receipt Date:** _________________  
**Date EFTPS Paid:** ________________

**Note:** When you make a deposit, be sure to write your EIN on the check (not the stub) and the payroll period involved.

This takes care of your federal tax liability for this Pay Period. Send the check to your Federal Reserve bank via Electronic Funds Transfer (EFT).

**Prepared by:** ___________________________  
**Date:** __________________

**Approved by:** ___________________________  
**Date:** __________________

Page 60
Federal Payroll Tax Liability Worksheet

Complete each time you issue payroll checks.

for Pay Period Ending (PPE) ______May 31, 20XX_____

Enter the total Social Security portion of FICA withheld from employees from your payroll journal: (6.2%) $____ 189.00 Line 1

Enter the total Social Security portion of FICA matching from employers from your payroll journal: (6.2%) $____ 192.50 Line 2

Enter the total Medicare Tax portion of FICA withheld from employees from your payroll journal: $____ 45.02 Line 3

Computation of Federal Tax Liability:

A. Total Social Security Tax:
   (Line 1 + Line 2) $____ 381.50 Line 4

B. Total Medicare Tax: Double the amount on Line 3 above. $____ 90.04 Line 5

C. Enter the total federal income tax withheld from employees: $____ 189.00 Line 6
   (Use the total federal withholding taxes from your payroll journal for the pay period.)

Total Federal payroll tax liability for this payroll: $____ 660.54 Line 7
   (Line 4 + Line 5 + Line 6 = Line 7)

EFTPS Receipt Date: 3/1/XX Date EFPTS Paid: 3/1/XX

Note: When you make a deposit, be sure to write your EIN on the check (not the stub) and the payroll period involved.

This takes care of your federal tax liability for this Pay Period. Send the check to your Federal Reserve bank via Electronic Funds Transfer (EFT).

Prepared by: Ido Books, Bookkeeper Date: 3/1/XX

Approved by: James R. Williams, Mayor Date: 3/1/XX
After you have determined what is owed for federal income tax and FICA, pay what you owe. Your payment schedule depends on the amount of undeposited payroll taxes due. The federal government requires an employer to deposit funds to a qualified bank once the taxes exceed a certain amount. Failure to do so results in fines and penalties. Determining when payroll taxes must be deposited can be complicated.

DCCED recommends that you pay the payroll taxes each time you issue the paychecks.

Payroll Tax Deposit Schedules
Two deposit schedules – monthly or semiweekly – are used for determining when you deposit federal employment and withholding taxes (other than FUTA taxes). The IRS will notify you each November whether you are a monthly or semiweekly depositor for the coming calendar year. The rules apply to Social Security and Medicare taxes and federal income tax withheld on wages, tips, and sick pay. Your deposit schedule for a calendar year is determined from the total taxes you reported on Form 941 in a four-quarter, look-back period: July 1 through June 30. If you reported $50,000 or less of employment taxes for the look-back period, you are a monthly depositor; if you reported more than $50,000, you are a semiweekly depositor.

- Under the monthly rule, employment and other taxes withheld on payments made during a calendar month must be deposited by the 15th day of the following month.
- Under the semiweekly rule, employment and other taxes withheld on payments made on Wednesday, Thursday, and/or Friday must be deposited by the following Wednesday. Amounts accumulated on payments made on Saturday, Sunday, Monday, and/or Tuesday must be deposited by the following Friday.

<table>
<thead>
<tr>
<th>Payroll Day</th>
<th>Deposit by Day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wednesday, Thursday, or Friday</td>
<td>Following Wednesday</td>
</tr>
<tr>
<td>Saturday, Sunday, Monday, Tuesday</td>
<td>Following Friday</td>
</tr>
</tbody>
</table>

If you are a new employer during the first calendar year of your business, your tax liability for each quarter in the look-back period is considered to be zero. Therefore, you are a monthly depositor for the first year of business. Refer to Circular E for more information.
In this example, the City of Pacific chose to pay its federal payroll taxes with six checks during the quarter instead of one check at the end of the quarter. The six checks were as follows:

<table>
<thead>
<tr>
<th>Pay Period</th>
<th>Wages</th>
<th>Fed. Payroll Tax</th>
<th>Check Mailed</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/01 – 01/15</td>
<td>2,868.00</td>
<td>555.82</td>
<td>2/1</td>
</tr>
<tr>
<td>01/16 – 01/31</td>
<td>3,327.00</td>
<td>650.04</td>
<td>2/16</td>
</tr>
<tr>
<td>02/01 – 02/15</td>
<td>2,936.00</td>
<td>552.24</td>
<td>3/1</td>
</tr>
<tr>
<td>02/16 – 02/28</td>
<td>2,732.00</td>
<td>506.99</td>
<td>3/16</td>
</tr>
<tr>
<td>03/1 – 03/15</td>
<td>2,936.00</td>
<td>552.24</td>
<td>4/1</td>
</tr>
<tr>
<td>03/16 – 03/31</td>
<td>2,856.00</td>
<td>542.96</td>
<td>4/16</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>$17,655.00</td>
<td>$3,360.29</td>
<td></td>
</tr>
</tbody>
</table>

**Employer's Quarterly Federal Tax Return (Form 941)**

Regardless of when deposits are made, an Employer's Quarterly Federal Tax Return, Form 941, is filled out at the end of every three months. Use Form 941 to report deposits made for federal income tax withheld and FICA taxes. If you deposited the taxes owed semimonthly, weekly, or after each pay period, Form 941 shows the amount of the total federal tax deposits made that quarter. This total is the sum of all the deposits you made after each payroll.

- **DCCED recommends that you pay your taxes at the end of each pay period to avoid running short of cash.**
- **Paying taxes when you write payroll checks prevents you from making late tax deposits.**
- **If taxes are not paid on time, the IRS will levy interest and penalties.**

The purpose of the Employer's Quarterly Federal Tax Return, Form 941, is to show the IRS how taxes were calculated. See example on the next page.
Read the separate instructions before you complete Form 941. Type or print within the boxes.

**Part 1: Answer these questions for this quarter.**

1. Number of employees who received wages, tips, or other compensation for the pay period including: Mar. 12 (Quarter 1), June 12 (Quarter 2), Sept. 12 (Quarter 3), or Dec. 12 (Quarter 4)

2. Wages, tips, and other compensation

3. Federal income tax withheld from wages, tips, and other compensation

4. If no wages, tips, and other compensation are subject to social security or Medicare tax

5a. Taxable social security wages

5b. Taxable social security tips

5c. Taxable Medicare wages & tips

5d. Taxable wages & tips subject to Additional Medicare Tax withholding

5e. Add Column 2 from lines 5a, 5b, 5c, and 5d

5f. Section 3121(q) Notice and Demand—Tax due on unreported tips (see instructions)

6. Total taxes before adjustments. Add lines 3, 5e, and 5f

7. Current quarter’s adjustment for fractions of cents

8. Current quarter’s adjustment for sick pay

9. Current quarter’s adjustments for tips and group-term life insurance

10. Total taxes after adjustments. Combine lines 6 through 9

11. Qualified small business payroll tax credit for increasing research activities. Attach Form 8974

12. Total taxes after adjustments and credits. Subtract line 11 from line 10

13. Total deposits for this quarter, including overpayment applied from a prior quarter and overpayments applied from Form 941-X, 941-X (PR), 944-X, or 944-X (SP) filed in the current quarter

14. Balance due. If line 12 is more than line 13, enter the difference and see instructions

15. Overpayment. If line 13 is more than line 12, enter the difference

Next page

For Privacy Act and Paperwork Reduction Act Notice, see the back of the Payment Voucher.
Federal Unemployment Tax Act (FUTA)

Remember, cities and boroughs don't pay FUTA tax. Tribal Councils don't pay FUTA tax if they are current with ESC. This discussion is for unincorporated, non-tribal communities.

Some employers (see above) pay both a federal (FUTA) and state (ESC, SUI, or SUTA) unemployment tax. FUTA is a tax that supports unemployment benefits to workers. It's paid by the employer only. As of July 1, 2011 the FUTA tax rate will be decreased to 6.0%. The tax applies to the first $7,000 you pay each employee for the year. This $7,000 is the federal wage base. If you made timely payments of the state unemployment tax, you are given a credit of up to 5.4% on FUTA, and the federal rate is 0.8% of the gross wages after that credit.

To determine the amount of FUTA taxes:
1. Examine the pay record of each employee.
2. Look at the year-to-date gross amount earned at the beginning of each quarter for the employee. If this amount is greater than the wage limit ($7,000), you don't need to pay FUTA taxes for the quarter on this employee.
3. If the year-to-date gross wages earned at the beginning of the quarter are less than the wage limit, but the amount at the end of the quarter is more than the limit, tax is paid only on the difference between the wage limit ($7,000) and the total earnings for the tax year at the beginning of the quarter.
4. Multiply the amount of FUTA taxable earnings for the quarter by the tax rate and record the amount. The total FUTA tax for all employees is the amount owed by the employer to the IRS.

Form 8109, Federal Tax Deposit Coupon, is used to deposit FUTA taxes. When preparing the form, black out the 940 circle in the "type of tax" portion of the coupon to deposit FUTA taxes. FUTA deposits are made at the end of a quarter when the total FUTA tax liability is $100 or more. Send FUTA deposits to a bank qualified to receive the payments, using Form 8109 or 8109-B. FUTA reports are made once a year. If you have paid all of your state ESC taxes for the year, you may use Form 940-EZ. If you haven't paid all of your state ESC taxes, you must use Form 940.
Employment Security Contributions (ESC)
Like FUTA, ESC is unemployment insurance. However, ESC supports state unemployment benefits.

**Note:** The employee pay record and the payroll journal *don't* have columns for FUTA. FUTA is paid *only* by employers. Don't withhold any money from employees for FUTA taxes.

**All employers must pay ESC**

Employers must report ESC taxes quarterly. ESC payments are made at least quarterly but may be paid more frequently. ESC payments include the ESC tax withheld from the employee’s paychecks plus an employer's contribution. The rate for all Alaska employees is set each year.

The rate paid by an employer depends on the "experience rate," which is based on the “quarterly decline quotient” and takes the employer’s quarterly payroll history into account. Check your **Contribution Rate Notice**. The Alaska DOLWD sends this notice each December to employers and notifies the employer of the rate the employer must pay. In the example shown on the experience rate used is. 0494 (or 4.94%). **Your experience rate may be different.**

As with FUTA and FICA, a limit applies to the amount of an employee's earnings taxed under ESC. The 2014 gross wage limit is $37,400. To check current limits contact the Alaska DOLWD Employment Security Division or see their web site at [http://www.labor.state.ak.us/estax/faq/w1.htm](http://www.labor.state.ak.us/estax/faq/w1.htm)

Once gross wages exceed the limit, no more payments for ESC are required of the employee or employer. However, the employer is still required to file a report each quarter.

Contact the nearest Field Tax Office for information on exempt employees and casual labor.

Use the State Payroll Tax Liability Worksheet on the next page to make sure that your calculations are correct. For more information, you may refer to the Alaska Unemployment Insurance Tax Handbook online at [http://www.labor.state.ak.us/estax/forms/taxbook.pdf](http://www.labor.state.ak.us/estax/forms/taxbook.pdf)
State ESC Tax Liability Worksheet

Payroll Period: ______________________  Payroll Journal No.: _______

Gross Wages of Employees: ________________

|  |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|
| **A. Total Employees ESC** | (Gross Wages times 0.62%) |   | $ ___________
| ( _____________ x 0.062) |   |   |
| **B. Total Employees ESC** | (Gross Wages times Experience Rate Percent) |   | $ ___________
| ( _____________ x _____________) |   |   |
| Total ESC Liability | (A + B) |   | $ ___________

In the example below, the experience rate is 4.94%. *Your experience rate may be different.*

State ESC Tax Liability Worksheet

Payroll Period:  5/31/XX  Payroll Journal No.:  2

Gross Wages of Employees: $2,856.00

|  |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|
| **C. Total Employees ESC** | (Gross Wages times 0.66%) |   | $ ___________
| ( $3000.50 x 0.062) |   |   |
| **D. Total Employees ESC** | (Gross Wages times Experience Rate Percent) |   | $ ___________
| ( $3000.50 x 0.0494) |   |   |
| Total ESC Liability | (A + B) |   | $ ___________

<p>| | | | | | | | |</p>
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<td></td>
<td></td>
</tr>
</tbody>
</table>
| Total ESC Liability | (A + B) |   | $ ___________

Page 67
The employer is responsible for completing and sending an Alaska Quarterly Contribution Report to the DOLWD, Employment Security Division. (The current version is found at [http://labor.alaska.gov/estax/forms/toc_forms.htm](http://labor.alaska.gov/estax/forms/toc_forms.htm). This quarterly report shows the amount of ESC taxes required from the employer and the employee.

The report is due on April 30, July 31, October 31, and January 31 of each year. Payments are required no later than these dates for the preceding three months but may be made more frequently. Some communities have problems with cash flow and can't make quarterly payments. These communities should pay ESC taxes each time payroll is calculated to avoid not having sufficient money to pay the DOLWD at the end of each quarter.

A community that wants to make ESC tax payments for each payroll should contact the Fairbanks Field Tax Office of the DOL at 1-907-451-2876, to notify DOL that the community will be sending multiple payments for each quarter.

Write the community's Alaska Employer Identification Number (AEIN) on the check and send a letter with the check explaining the payment.

Send the payment to the Fairbanks or Juneau Field Tax Office. The Quarterly Report must be sent to Juneau or filed electronically at: [www.labor.state.ak.us/estax](http://www.labor.state.ak.us/estax).

DCCED recommends you pay your ESC taxes each time you issue payroll checks if you have a cash flow problem.
NOTE: In the example below, the experience rate used is 4.94%. Your experience rate may be different. Check your **Rate Contribution Notice**. This notice is sent yearly to employers from the Alaska DOL.

ESC Payment for Pay Period
1/1/XX through 1/15/XX

City of Pacific  
P.O. Box 423  
Pacifica, AK 99909

June 1, 20XX

Department of Labor  
Fairbanks Field Tax Office  
675 Seventh Ave. Station L  
Fairbanks, AK 99701-2876

RE: Employer Account No. 0008914465

Dear: DOL

Enclosed is the City of Pacific’ ESC tax payment for Pay Period Ending 05/31/XX.

Please credit out account for $204.04 (check # 091). Thank You.

Sincerely,

Ido Books  
Bookkeeper,  
City of Pacific

Enclosure

<table>
<thead>
<tr>
<th>City of Pacific</th>
<th>ACCOUNT# 0008914465</th>
</tr>
</thead>
<tbody>
<tr>
<td>P.O. Box 423</td>
<td>00091</td>
</tr>
<tr>
<td>Pacific, Alaska 99909</td>
<td>DATE January 15, 20XX</td>
</tr>
<tr>
<td>Phone (907) 567-8901</td>
<td></td>
</tr>
</tbody>
</table>

$ 204.04

Dept. of Labor Div of Employment Security

Two Hundred Four Dollars and 04/100

James R. Williams

Sarah John
End of the Quarter: Complete the Employer’s Quarterly Report and include a check of $155.37 for the final pay period (3/16 through 3/31 of that year).

The quarterly ESC report and payment would be mailed to the Juneau office on April 15. See the next page.

Example of the Employer’s Quarterly Report for 6/30/2012 – 07/30/2012. Rates and figures will be different on your report.

![Quarterly Contribution Report](image)
**Remember**

Quarterly Reports are due each year on:
- April 30
- July 31
- October 31
- January 31

Year-End Reports

By January 31, you must give or send each employee a wage and tax statement, called a W-2 form. By February 28, you must send originals of all the W-2s under the cover of a W-3 to the Social Security Administration. Each December, the W-2s and W-3s for the current year are available from the IRS, at 800-829-3676 or online: [http://www.ssa.gov/employer/pub.htm](http://www.ssa.gov/employer/pub.htm).

All employers must report the following information to the employee and the Social Security Administration using the W-2:
- The gross salary;
- Total deductions for FICA (Social Security and Medicare), and
- Federal taxes withheld.

Information for completing the W-2 comes from each employee's pay record.

---

**W-2 Wage and Tax Statement**

Department of the Treasury—Internal Revenue Service

Copy 1—For State, City, or Local Tax Department

---

[Table with the W-2 form filled out]
Payments from Retirement Plans to Retired Employees
Pension, annuity, or retirement payments made to former employees by the employer are reported on Form W-2P. These payments do not have to be reported by small communities participating in Social Security as their only retirement program.

Form W-3
Form W-3 transmits W-2 forms to the Social Security Administration. Send form W-3 and the W-2 forms on or before February 28 to:

Social Security Administration
Data Operations Center
Wilkes-Barre, PA 18769-0001

You need to be sure your figures are correct before filing the fourth quarter 941 (Quarterly Federal Tax Return) and sending the W-2s and W-3 to the Social Security Administration. When the Social Security Administration receives the W-2s and W-3, it will compare the figures on the 941s, W-2s, and W-3 for the year. Use the following form to reconcile the returns.

<table>
<thead>
<tr>
<th>Reconciling Forms 941, W-2, and W-3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>941 Line #</strong></td>
</tr>
<tr>
<td>Wages</td>
</tr>
<tr>
<td>Fed Inc Tax</td>
</tr>
<tr>
<td>SS Wages</td>
</tr>
<tr>
<td>SS Tips</td>
</tr>
<tr>
<td>SS Tax</td>
</tr>
<tr>
<td>Med Wages</td>
</tr>
<tr>
<td>Med Tax</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
This is an example of a W-3 form for the year 2014. Be sure to use the correct year’s W-3 form.

**Form W-3 Transmittal of Wage and Tax Statements**

Send this entire page with the entire Copy A page of Form(s) W-2 to the Social Security Administration (SSA). Photocopies are not acceptable. Do not send Form W-3 if you filed electronically with the SSA. Do not send any payment (cash, checks, money orders, etc.) with Form W-2 and W-3.

**Reminder**

Separate instructions. See the 2017 General Instructions for Forms W-2 and W-3 for information on completing this form. Do not file Form W-3 for Form(s) W-2 that were submitted electronically to the SSA.

**Purpose of Form**

Complete a Form W-3 Transmittal only when filing paper Copy A of Form(s) W-2, Wage and Tax Statement. Don’t file Form W-3 alone. All paper forms must comply with IRS standards and be machine readable. Photocopies are not acceptable. Use a Form W-3 even if only one paper Form W-2 is being filed. Make sure both the Form W-3 and Form(s) W-2 show the correct tax year and Employer Identification Number (EIN). Make a copy of this form and keep it with Copy D (For Employer) of Form(s) W-2 for your records. The IRS recommends retaining copies of these forms for four years.

**E-Filing**

The SSA strongly suggests employers report Form W-3 and Forms W-2 Copy A electronically instead of on paper. The SSA provides two free e-filing options on its Business Services Online (BSO) website:

- **W-2 Online.** Use fill-in forms to create, save, print, and submit up to 50 Forms W-2 at a time to the SSA.
- **File Upload.** Upload wage files to the SSA you have created using payroll or tax software that formats the files according to the SSA’s Specifications for Filing Forms W-2 Electronically (EFW2).

W-2 Online fill-in forms or file uploads will be on time if submitted by January 31, 2018. For more information, go to www.socialsecurity.gov/employer. First time filers, select “Register”; returning filers select “Log in.”

**When To File Paper Forms**

Mail Form W-3 with Copy A of Form(s) W-2 by January 31, 2018.

**Where To File Paper Forms**

Send this entire page with the entire Copy A page of Form(s) W-2 to:

- **Social Security Administration**
- **Direct Operations Center**
- **Wilkes-Barre, PA 18769-0001**

Note: If you use “Certified Mail” to file, change the ZIP code to “18769-0002.” If you use an IRS-approved private delivery service, add “ATTN: W-2 Process, 1150 E. Mountain Dr.” to the address and change the ZIP code to “18769-7997.” See Publication 15 (Circular E), Employer’s Tax Guide, for a list of IRS-approved private delivery services.

For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 10158Y

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What's Next?

Once you've calculated payroll costs and paid your taxes, enter the information in your bookkeeping system. The information in the payroll journal on employee wages, deductions, and employer taxes is reported in the cash disbursements journal. The payroll journal is also used for monthly financial reports and annual balance statements.

If your community doesn't have an adequate record keeping system to report payroll and tax information, contact your nearest regional office of the DCCED (provided in the front of this book).

NOTES

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Chapter 3 Review
Payroll Calculations and Reporting

1. **True or False**: Municipalities in Alaska must pay hourly workers at least the federal minimum wage.

2. **True or False**: Non-municipal employers in Alaska must pay hourly workers at least the Alaska minimum wage.

3. **True or False**: An hourly worker who works over eight hours a day is entitled to 1½ times the usual wage rate of pay. (Hint: Check FLSA)

4. **True or False**: Non-municipal employers and employees pay both Social Security and Medicare taxes under FICA.

5. **True or False**: Employers must report ESC taxes monthly.

6. The following taxes, at a minimum, must be calculated for hourly employees of: (Check all that apply)

   - **Municipalities**
     - ESC
     - FICA
     - FUTA
     - Federal Income Tax
     - Medicare

   - **Other employers**
     - ESC
     - FICA
     - FUTA
     - Federal Income Tax
     - Medicare
Chapter 3 Review
Payroll Calculations and Reporting: Answers

1. [True]

2. [True]

3. [True] In most cases

4. [True]

5. [False] Quarterly reports are required

6. The following taxes, at a minimum, must be calculated for hourly employees of: (Check all that apply)

   Municipalities
   ☑ ESC/EST
   ☑ FICA Other than the Medicare portion, FICA is an option if the municipality is in a retirement program.
   * ☑ FUTA Municipalities are exempt from FUTA. Tribes are exempt if they are current with ESC payments.
   ☑ Federal Income Tax
   ☑ Medicare If employee is hired after March 31, 1986.

   Other employers
   ☑ ESC
   ☑ FICA
   ☑ FUTA (unless Tribal government and current with ESC)
   ☑ Federal Income Tax
   ☑ Medicare