

Instructions for Form 941

(Rev. January 2002)

Employer's Quarterly Federal Tax Return

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



Department of the Treasury
Internal Revenue Service

Changes To Note

Social security wage base for 2002. Stop withholding social security tax after an employee reaches **\$84,900** in taxable wages.

Third party designee. You can now allow an employee or paid preparer to resolve certain tax issues with the IRS. See **Third Party Designee** on page 4 of the instructions.

General Instructions

Purpose of Form

Use Form 941 to report:

- Income tax you withheld from wages, including tips, supplemental unemployment compensation benefits, and third-party payments of sick pay.
- Social security and Medicare taxes.

Who Must File

Employers who withhold income tax on wages, or who must pay social security or Medicare tax, must file Form 941 each calendar quarter. After you file the first Form 941, you must file a return for each quarter, even if you have no taxes to report (but see the **seasonal employers** and **final return** information below). If you filed Form 941 on magnetic tape or by electronic or TeleFile methods, do not also file a paper Form 941. For information about filing Form 941 electronically, see Circular E.

Seasonal employers are not required to file for quarters when they regularly have no tax liability because they have paid no wages. To alert the IRS that you will not have to file a return for one or more quarters during the year, check the **Seasonal employers** box above line 1 on Form 941 for each quarter. See section 12 of Circular E for more information.

Exception. Employers of the following categories of workers do not usually file Form 941.

Household employees. See **Pub. 926**, Household Employer's Tax Guide, and **Schedule H (Form 1040)**, Household Employment Taxes.

Farm employees. See **Form 943**, Employer's Annual Tax Return for Agricultural Employees, and **Circular A**, Agricultural Employer's Tax Guide (Pub. 51).

Business reorganization or termination. If you sell or transfer your business, you and the new owner must each file a return for the quarter in which the transfer occurred. Each should report only the wages it paid. A change from one form of business to another, such as from sole proprietorship to partnership or corporation, is considered a transfer and requires a new employer identification number (EIN). See section 1 of Circular E. If a change occurs, please attach a statement to your return that shows: new owner's name (or new name of

the business); whether the business is now a sole proprietorship, partnership, or corporation; kind of change (sale or transfer); and date of change.

When two businesses merge, the continuing firm must file the return for the quarter the change took place. The other firm should file a final return.

Final return. If you go out of business or stop paying wages, file a **final return**. Be sure to check the final return box and enter the date final wages were paid above line 1. See the **Instructions for Forms W-2 and W-3** for information on the earlier dates for the expedited furnishing and filing of Form W-2 when a final Form 941 is filed.

Preparing the Form

The following will allow the IRS to process Form 941 faster and more accurately:

- Make dollar entries without the dollar sign and comma (0000.00).
- Enter negative amounts in parentheses.
- File the Form 941 that has your preprinted name and address.

When To File

File starting with the first quarter in which you are required to withhold income tax or pay wages subject to social security and Medicare taxes.

Quarter	Ending	Due Date
Jan.-Feb.-Mar.	March 31	April 30
Apr.-May-June	June 30	July 31
July-Aug.-Sept.	Sept. 30	Oct. 31
Oct.-Nov.-Dec.	Dec. 31	Jan. 31

If you made deposits on time in full payment of the taxes for a quarter, you have 10 more days after the above due date to file. Your return will be considered timely filed if it is properly addressed and mailed First-Class or sent by an IRS designated delivery service on or before the due date. See Circular E for more information on IRS designated delivery services. If the due date for filing a return falls on a Saturday, Sunday, or legal holiday, you may file the return on the next business day.

Where To File

See the back of Form 941 for the mailing address for your return.

Depositing Taxes

If your net taxes (line 13) are \$2,500 or more for the quarter, you must deposit your tax liabilities at an authorized financial institution with **Form 8109**, Federal Tax Deposit Coupon, or by using the **Electronic Federal Tax Payment System (EFTPS)**. You may pay the taxes with Form 941 instead of depositing if your total taxes for the quarter (line 13) are less than \$2,500 and you pay in full with a timely filed return. See section 11 of Circular E

for information and rules concerning Federal tax deposits.

Reconciliation of Forms 941 and W-3

Certain amounts reported on the four quarterly Forms 941 for 2002 should agree with the **Form W-2**, Wage and Tax Statement, totals reported on **Form W-3**, Transmittal of Wage and Tax Statements, or equivalent magnetic media reports (Form 6559) filed with the Social Security Administration (SSA). The amounts that should agree are income tax withholding, social security wages, social security tips, Medicare wages and tips, and the advance earned income credit. If the totals do not agree, the IRS may require you to explain any differences and correct any errors. For more information, see section 12 of Circular E.

Penalties and Interest

There are penalties for filing a return late and paying or depositing taxes late, unless there is reasonable cause. If you are late, please attach an explanation to your return. There are also penalties for failure to (1) furnish Forms W-2 to employees and file copies with the SSA or (2) deposit taxes when required. In addition, there are penalties for willful failure to file returns and pay taxes when due and for filing false returns or submitting bad checks. Interest is charged on taxes paid late at the rate set by law. See Circular E for additional information.



A trust fund recovery penalty may apply if income, social security, and Medicare taxes that must be withheld are not withheld or are not paid. The penalty is the full amount of the unpaid trust fund tax. This penalty may apply when these unpaid taxes cannot be immediately collected from the employer or business. The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to be responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. See Circular E for more information.

Ordering Forms and Publications

IRS forms and publications are available by calling 1-800-829-3676 or by accessing the IRS's Web Site at www.irs.gov. See Circular E for additional methods of obtaining forms and publications.

Forms W-4

Each quarter, send with Form 941 copies of any **Forms W-4**, Employee's Withholding Allowance Certificate, received during the quarter from employees claiming (1) more than 10 withholding allowances or (2) exemption from income tax withholding if their wages will normally be more than \$200 a week. For details, see section 9 of Circular E.

Forms W-5

Each eligible employee wishing to receive any advance earned income credit (EIC) payments must give you a completed **Form W-5**, Earned Income Credit Advance Payment Certificate. The employer's requirement to notify certain employees about the EIC can be met by giving each eligible employee **Notice 797**, Possible Federal Tax Refund Due to the Earned Income Credit (EIC). See Circular E and **Pub. 596**, Earned Income Credit, for more information.

Employer Identification Number

If you do not have an EIN, apply for one on **Form SS-4**, Application for Employer Identification Number. Get this

form from the IRS or the SSA. If you do not have an EIN by the time a return is due, write "Applied for" and the date you applied in the space shown for the number. Form SS-4 has information on how to apply for an EIN by mail or by telephone.

Note: Always be sure the EIN on the form you file matches the EIN assigned to your business by the IRS. Do not show your personal social security number on forms calling for an EIN. Filing a Form 941 with an incorrect EIN or using another business' EIN may result in penalties and delays in processing your return.

Preprinted Name and Address Information

If any of the preprinted name, EIN, or address information on Form 941 is not correct, cross it out and type or print the correct information.

Specific Instructions

State Code

If you made your deposits by FTD coupon or by using EFTPS in a state other than that shown in your address on Form 941, enter the state code for the state where you made deposits in the box provided in the upper left corner of the form. Use the Postal Service two-letter state abbreviation as the state code. Enter the code "MU" in the state code box if you deposit in more than one state. If you deposit in the same state as shown in your address, do not make an entry in this box.

Line 1—Number of employees

Enter the number of employees on your payroll during the pay period including March 12 (on the January-March calendar quarter return only). Do not include household employees, persons who received no pay during the pay period, pensioners, or members of the Armed Forces. An entry of 250 or more on line 1 indicates a need to file Forms W-2 electronically or on magnetic media. Call the SSA at 1-800-772-6270 for more information on electronic or magnetic media filing requirements.

Line 2—Total wages and tips, plus other compensation

Enter the total of all wages paid, tips reported, taxable fringe benefits provided, and other compensation paid to your employees, **even if you do not have to withhold income or social security and Medicare taxes on it.** Do not include supplemental unemployment compensation benefits, even if you withheld income tax on them. Do not include contributions to employee plans that are excluded from the employee's wages (e.g., section 401(k) and 125 plans).

If you get timely notice from your insurance carrier concerning the amount of third-party sick pay it paid your employees, include the sick pay on line 2. If you are an insurance company, do not include sick pay you paid policyholders' employees here if you gave the policyholders timely notice of the payments. See **Pub. 15-A**, Employer's Supplemental Tax Guide, for details.

Line 3—Total income tax withheld

Enter the income tax you withheld on wages, tips, taxable fringe benefits, and supplemental unemployment compensation benefits. An insurance company should enter the income tax it withheld on third-party sick pay here.

Line 4—Adjustment of withheld income tax

Use line 4 to correct errors in income tax withheld from wages paid in earlier quarters of the **same calendar year**. You may not adjust or claim a refund or credit for any overpayment of income tax that you withheld or deducted from an employee in a prior year. This is because the employee uses the amount shown on Form W-2 as a credit when filing his or her income tax return. Because any amount shown on line 4 increases or decreases your tax liability, the adjustment must be taken into account on line 17, Monthly Summary of Federal Tax Liability, or on **Schedule B (Form 941)**, Employer's Record of Federal Tax Liability. For details on how to report adjustments on the record of Federal tax liability, see the instructions for line 17 (on page 4) or the instructions for Schedule B (Form 941). Explain any adjustments on **Form 941c**, Supporting Statement To Correct Information, or an equivalent statement. See section 13 of Circular E.

Note: Do not adjust income tax withholding for quarters in earlier years unless it is to correct an administrative error. An administrative error occurs if the amount you entered on Form 941 is not the amount you actually withheld. For example, if the total income tax actually withheld was incorrectly reported on Form 941 due to a mathematical or transposition error, this would be an administrative error. The administrative error adjustment corrects the amount reported on Form 941 to agree with the amount actually withheld from the employees.

Line 5—Adjusted total of income tax withheld

Add line 4 to line 3 if you are reporting additional income tax withheld for an earlier quarter. Subtract line 4 from line 3 if you are reducing the amount of income tax withheld. If there is no entry on line 4, line 5 will be the same as line 3.

Line 6a—Taxable social security wages

Enter the total wages subject to social security taxes that you paid your employees during the quarter. Also include any sick pay and taxable fringe benefits subject to social security taxes. See section 5 of Circular E for information on types of wages subject to social security taxes. Enter the amount before deductions. Do not include tips on this line. Stop reporting an employee's wages (including tips) when they reach \$84,900 for 2002. However, continue to withhold income and Medicare tax for the whole year on wages and tips even when the social security wage base of \$84,900 is reached. See the line 7a instructions for Medicare tax. **If none of the payments are subject to social security tax, check the box in line 8.**

Line 6c—Taxable social security tips

Enter all tips your employees reported during the quarter until tips and wages for an employee reach \$84,900 in 2002. Do this even if you were not able to withhold the employee tax (6.2%). However, see the line 9 instructions for the adjustment for uncollected taxes on tips.

An employee must report to you cash tips, including tips you paid the employee for charge customers, totaling \$20 or more in a month by the 10th of the next month. The employee may use **Form 4070**, Employee's Report of Tips to Employer, or a written statement.

Do not include allocated tips on this line. Instead, report them on **Form 8027**, Employer's Annual Information Return of Tip Income and Allocated Tips.

Allocated tips are not reportable on Form 941 and are not subject to withholding of income, social security, or Medicare taxes.

Line 7a—Taxable Medicare wages and tips

Report all wages and tips subject to Medicare tax. Also include any sick pay and taxable fringe benefits subject to Medicare tax. See section 5 of Circular E for information on types of wages subject to Medicare tax. There is no limit on the amount of wages subject to Medicare tax. **If none of the payments are subject to Medicare tax, check the box in line 8.**

Include all tips your employees reported during the quarter, even if you were not able to withhold the employee tax (1.45%). However, see the line 9 instructions below.

Line 9—Adjustment of social security and Medicare taxes

Current period adjustments. In certain cases, amounts reported as social security and Medicare taxes on lines 6b, 6d, and 7b must be adjusted to arrive at your correct tax liability. See section 13 of Circular E for information on the following:

- Adjustment for the uncollected employee share of social security and Medicare taxes on tips.
- Adjustment for the employee share of social security and Medicare taxes on group-term life insurance premiums paid for former employees.
- Adjustment for the employee share of social security and Medicare taxes withheld by a third-party sick pay payer.
- Fractions of cents adjustment.

Enter the adjustments for sick pay and fractions of cents in the appropriate line 9 entry spaces. Enter the amount of all other adjustments in the "Other" entry space, and enter the total of the three types of adjustments, including prior period adjustments (discussed on page 4), in the line 9 entry space to the right. Provide a supporting statement explaining any adjustments reported in the "Other" entry space.

Prior period adjustments. Use line 9 to correct errors in social security and Medicare taxes reported on an earlier return. If you report both an underpayment and an overpayment, show only the net difference.

Because any prior period adjustments shown on line 9 increase or decrease your tax liability, the adjustments must be taken into account on line 17, Monthly Summary of Federal Tax Liability, or on Schedule B (Form 941). For details on how to report adjustments on the record of Federal tax liability, see the instructions for line 17, later, or the instructions for Schedule B (Form 941).

Explain any prior period adjustments on Form 941c. **Do not** file Form 941c separately from Form 941. Form 941c is not an amended return but is a statement providing necessary information and certifications supporting the adjustments on lines 4 and/or 9 of Form 941. If you do not have a Form 941c, you may file an equivalent supporting statement with the return providing the required information about the adjustment(s). See section 13 of Circular E.

If you are adjusting an employee's social security or Medicare wages or tips for a prior year, you must file **Form W-2c**, Corrected Wage and Tax Statement, with **Form W-3c**, Transmittal of Corrected Wage and Tax Statements.

Line 10—Adjusted total of social security and Medicare taxes

Add line 9 to line 8 if line 9 is positive (i.e., the net adjustment increases your tax liability). Subtract line 9 from line 8 if line 9 is negative.

Line 12—Advance earned income credit (EIC) payments made to employees

Enter advance EIC payments made to employees. Your eligible employees may elect to receive part of the EIC as an advance payment. Eligible employees who have a qualifying child must give you a completed Form W-5 stating that they qualify for the EIC. Once the employee gives you a signed and completed Form W-5, you must make the advance EIC payments. Advance EIC payments are generally made from withheld income tax and employee and employer social security and Medicare taxes. See section 10 of Circular E and Pub. 596.

If the amount of your advance EIC payments exceeds your total taxes (line 11) for the quarter, you may claim a refund of the overpayment or elect to have the credit applied to your return for the next quarter. Provide a statement with your return identifying the amount of excess payment(s) and the pay period(s) in which it was paid. See section 10 of Circular E.

Line 15—Balance due

You do not have to pay if line 15 is under \$1.

Generally, you should have a balance due only if your net tax liability for the quarter (line 13) is less than \$2,500. (However, see section 11 of Circular E regarding payments made under the **accuracy of deposits rule**). If line 13 is \$2,500 or more and you have deposited all taxes when due, the amount shown on line 15 (balance due) should be zero.



If you fail to make deposits as required and instead pay the taxes with Form 941, you may be subject to a penalty.

Line 16—Overpayment

If you deposited more than the correct amount for a quarter, you can have the overpayment refunded or applied to your next return by checking the appropriate box. If you do not check either box, your overpayment will be applied to your next return. The IRS may apply your overpayment to any past due tax account under your EIN. If line 16 is under \$1, the amount will be refunded or applied to your next return only on written request.

Line 17—Monthly Summary of Federal Tax Liability

Note: *This is a summary of your monthly tax liability, not a summary of deposits made. If line 13 is less than \$2,500, do not complete line 17 or Schedule B (Form 941).*

Complete line 17 only if you were a monthly schedule depositor for the entire quarter (see section 11 of Circular E for details on the deposit rules). You are a monthly schedule depositor for the calendar year if the amount of your Form 941 taxes reported for the lookback period is not more than \$50,000. The lookback period is the four consecutive quarters ending on June 30 of the prior year. For 2002, the lookback period begins July 1, 2000, and ends June 30, 2001.



*If you were a semiweekly schedule depositor during any part of the quarter, **do not complete columns (a) through (d) of line 17. Instead, complete Schedule B (Form 941).***

Reporting adjustments on line 17. If the net adjustment during a month is negative (e.g., correcting an overreported liability in a prior period) and it exceeds the total liability for the month, do not enter a negative amount for the month. Instead, enter -0- for the month and carry over the unused portion of the adjustment to the next month. For example, Pine Co. discovered on February 6, 2002, that it overreported social security tax on a prior quarter return by \$2,500. Its Form 941 taxes for the 1st quarter of 2002 were: January \$2,000, February \$2,000, March \$2,000. Pine Co. should enter \$2,000 in column (a), -0- in column (b), \$1,500 in column (c), and the total, \$3,500, in column (d). The prior period adjustment (\$2,500) offsets the \$2,000 liability for February and the excess \$500 must be used to offset March liabilities. Since the error was not discovered until February, it does not affect January liabilities reported in column (a).

If excess negative adjustments are carried forward to the next quarter, do not show these excess adjustments on lines 4 or 9. Line 17, column (d), must equal line 13.

Who Must Sign

- **Sole proprietorship.** The individual owning the business.
- **Corporation.** The president, vice president, or other principal officer.
- **Partnership or unincorporated organization.** A responsible and duly authorized member or officer having knowledge of its affairs.
- **Trust or estate.** The fiduciary.

The return may also be signed by a duly authorized agent of the taxpayer if a valid power of attorney has been filed.

Third Party Designee. If you want to allow an employee or an individual paid preparer to discuss your Form 941 with the IRS, check the "Yes" box in the **Third Party Designee** section of the return. Also, enter that designee's name, phone number, and any five numbers the designee chooses as his or her personal identification number (PIN). The designation must specify an individual and may not refer to a tax preparation firm.

By checking the "Yes" box, you are authorizing the IRS to call the designee to answer any questions that may arise during the processing of your return. You are also authorizing the designee to:

- Give the IRS any information that is missing from your return.
- Call the IRS for information about the processing of your return, and
- Respond to certain IRS notices that you have shared with the designee about math errors and return preparation. The notices will not be sent to the designee.

You are not authorizing the designee to bind you to anything (including additional tax liability), or otherwise represent you before the IRS. If you want to expand the designee's authorization, see **Pub. 947**, Practice Before the IRS and Power of Attorney.

The designee authorization cannot be revoked. However, the authorization applies only to issues that arise during the processing of this return and will expire 1 year after the due date of the return.