



# Notice 931

(Rev. October 1997)

## Deposit Requirements for Employment Taxes

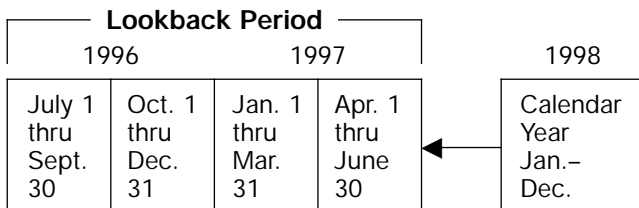
There are two deposit schedules—monthly or semiweekly—for determining when you deposit social security and Medicare taxes and withheld income tax. These schedules tell you when a deposit is due after a tax liability arises (e.g., when you have a payday). Prior to the beginning of each calendar year, you must determine which of the two deposit schedules you are required to use. The deposit schedule you must use is based on the total tax liability you reported on Form 941 during a four-quarter **lookback period** as discussed below. Your deposit schedule is **not** determined by how often you pay your employees or make deposits (see **Application of Monthly and Semiweekly Schedules** on the back).

Similar rules apply for Federal income tax withholding for nonpayroll items such as backup withholding, voluntary withholding on certain government payments, and withholding on pensions, annuities, and gambling winnings. These rules do not apply to Federal unemployment (FUTA) tax. See the **Instructions for Form 940** for information on depositing FUTA tax.

**Electronic deposit requirement.** If your total deposits of social security, Medicare, and withheld income taxes were more than \$50,000 in 1996, you must make electronic deposits for all depository tax liabilities that occur after 1997. However, if you were first required to use EFTPS on or after July 1, 1997, no penalties for failure to use EFTPS will be imposed prior to July 1, 1998. For details, see **Circular E**, Employer's Tax Guide.

**Lookback period.** Your deposit schedule for a calendar year is determined from the total taxes (not reduced by any advance earned income credit payments) reported on your Forms 941 (line 11) in a four-quarter lookback period. The lookback period begins July 1 and ends June 30 as shown in the chart below. If you reported \$50,000 or less of Form 941 taxes for the lookback period, you are a monthly schedule depositor; if you reported more than \$50,000, you are a semiweekly schedule depositor. There are two exception rules—the \$500 rule and the \$100,000 next-day deposit rule. The deposit rules and exceptions are discussed below.

### Lookback Period For Calendar Year 1998



### Monthly Deposit Schedule

Under the **monthly deposit schedule**, Form 941 taxes on payments made during a calendar month must be deposited by the 15th day of the following month.

Monthly schedule depositors are **not** required to file Form 941 on a monthly basis. Do not file **Form 941-M**, Employer's Monthly Federal Tax Return, unless you are instructed to do so by an IRS representative.

**New employers.** During the first calendar year of your business, your tax liability for each quarter in the lookback period is considered to be zero. Therefore, you are a monthly schedule depositor for the first year of your business (but see the **\$100,000 Next-Day Deposit Rule** on the back).

### Semiweekly Deposit Schedule

Under the **semiweekly deposit schedule**, Form 941 taxes on payments made on Wednesday, Thursday, and/or Friday must be deposited by the following Wednesday. Taxes on payments made on Saturday, Sunday, Monday, and/or Tuesday must be deposited by the following Friday.

Payment Days/Deposit Periods	Deposit By
Wednesday, Thursday, and/or Friday	Following Wednesday
Saturday, Sunday, Monday, and/or Tuesday	Following Friday

The end of the quarterly return period always ends a semiweekly deposit period and begins a new one. For example, if the quarter ends on Thursday, then Wednesday and Thursday are one deposit period in the quarter just ended and Friday becomes a separate deposit period in the new quarter. Taxes accumulated on Wednesday and Thursday are subject to one deposit obligation and taxes accumulated on Friday are subject to a separate deposit obligation. Separate deposits are required because two different quarters are affected.

### Example of Monthly and Semiweekly Schedules

Elm Co. reported Form 941 tax liability as follows:

1997 Lookback Period	1998 Lookback Period
3rd Quarter 1995 - \$12,000	3rd Quarter 1996 - \$12,000
4th Quarter 1995 - \$12,000	4th Quarter 1996 - \$12,000
1st Quarter 1996 - \$12,000	1st Quarter 1997 - \$12,000
2nd Quarter 1996 - \$12,000	2nd Quarter 1997 - \$15,000
<b>\$48,000</b>	<b>\$51,000</b>

Elm Co. is a monthly schedule depositor for 1997 because its tax liability for the four quarters in its lookback period (3rd quarter 1995 through 2nd quarter 1996) was not more than \$50,000. However, for 1998, Elm Co. must follow the semiweekly deposit rule described above because its liability exceeded \$50,000 for the four quarters in its lookback period (3rd quarter 1996 through 2nd quarter 1997).

### Deposits on Banking Days Only

If a deposit is due on a day that is not a banking day, the deposit is considered to have been made timely if it is made by the close of the next banking day. In addition to Federal and state bank holidays, Saturdays and Sundays are treated as nonbanking days. For example, if a deposit is due on a Friday and Friday is not a banking day, the deposit will be considered timely if it is made by the following Monday (if that Monday is a banking day).

A special rule is provided for **semiweekly schedule depositors** that allows at least 3 banking days to make a deposit. For example, if a semiweekly schedule depositor has Form 941 taxes accumulated for payments made on Friday and the following Monday is not a banking day, deposits made by the following Thursday are considered timely (allowing 3 banking days to make the deposit).

## Application of Monthly and Semiweekly Schedules

The terms “monthly schedule depositor” and “semiweekly schedule depositor” **do not** refer to how often your business pays its employees, or even how often you are required to make deposits. The terms identify which set of deposit rules you must follow when a Form 941 tax liability arises. The deposit rules are based on the dates wages are paid; **not** on when employment tax liabilities are accrued.

**Monthly schedule example:** Pine Co. has a monthly deposit schedule. It paid wages each Friday during January but did not pay any wages during February. Under the monthly schedule, Pine Co. must deposit the combined tax liabilities for the January paydays by February 17 (February 15 and 16 are nonbanking days). Pine Co. does not have a deposit requirement for February (due by March 16) because no wages were paid and, therefore, it did not have a tax liability for the month.

**Semiweekly schedule example:** Green Inc., which has a semiweekly deposit schedule, pays wages once each month on the last day of the month. Although Green Inc. has a semiweekly deposit schedule, it will deposit just once a month because it pays wages only once a month. The deposit, however, will be made under the semiweekly deposit schedule as follows: Green Inc.’s tax liability for the March 31 (Tuesday) payday must be deposited by April 3 (Friday). Under the semiweekly deposit schedule, liabilities arising on Saturday through Tuesday must be deposited by the following Friday.

## \$500 Rule

If an employer accumulates a tax liability of less than \$500 during a quarter, no deposits are required and this liability may be paid with Form 941 for the quarter. However, if you are unsure that you will accumulate less than \$500, deposit under the appropriate rules so that you will not be subject to failure-to-deposit penalties.

## \$100,000 Next-Day Deposit Rule

If the total accumulated tax reaches \$100,000 or more on any day during a deposit period, it must be deposited by the next banking day, whether an employer is a monthly or semiweekly schedule depositor. For monthly schedule depositors, the deposit period is a calendar month. The deposit periods for a semiweekly schedule depositor are Wednesday through Friday and Saturday through Tuesday. For purposes of the \$100,000 next-day deposit rule, do not continue accumulating Form 941 tax liability after the end of a deposit period. For example, if a semiweekly schedule depositor has accumulated a liability of \$95,000 on a Tuesday (of a Saturday-through-Tuesday deposit period) and accumulated a \$10,000 liability on Wednesday, the \$100,000 next-day deposit rule does not apply. Therefore, \$95,000 must be deposited by Friday and \$10,000 by the following Wednesday.

If a monthly schedule depositor accumulates a \$100,000 Form 941 tax liability on any day during a calendar month, it becomes a semiweekly schedule depositor on the next day and remains so for at least the remainder of the calendar year and for the following calendar year.

**Example of \$100,000 next-day deposit rule.** Fir Co. started its business on April 8, 1998. On April 15, it paid wages for the first time and accumulated a tax liability of \$40,000. On April 22, Fir Co. paid wages and accumulated a liability of \$60,000, bringing its accumulated Form 941 tax liability to \$100,000. Because this was the first year of its business, the tax liability for its lookback period is considered to be zero, and it would be a monthly schedule depositor based on the lookback rules. However, because Fir Co. accumulated \$100,000 on April 22, it became a semiweekly schedule depositor on April 23. It will be a semiweekly schedule depositor for the remainder of 1998 and for 1999. Fir Co. is required to deposit the \$100,000 by April 23, the next banking day.

## Adjustments and the Lookback Rule

Determine your tax liability for the quarters in the lookback period based on the tax liability as **originally** reported. If you made adjustments to correct errors on previously filed Forms 941, these adjustments do not affect the amount of tax liability for purposes of the lookback rule. If you report adjustments on your current Form 941 to correct errors on prior period returns, include these adjustments as part of your tax liability for the current quarter. If you filed **Form 843**, Claim for Refund and Request for Abatement, to claim a refund for a prior period overpayment, your tax liability does not change for either the prior period or the current period quarter for purposes of the lookback rule.

**Example of adjustments and the lookback rule.** An employer originally reported a tax liability of \$45,000 for the four quarters in the lookback period ending June 30, 1997. The employer discovered during January 1998 that the tax during one of the lookback period quarters was understated by \$10,000 and corrected this error with an adjustment on the 1998 first quarter Form 941. This employer is a monthly schedule depositor for 1998 because the lookback period tax liabilities are based on the amounts originally reported and they were less than \$50,000. The \$10,000 adjustment is part of the 1998 first quarter tax liability.

## Accuracy of Deposits Rule

You are required to deposit 100% of your tax liability on or before the deposit due date. However, penalties will not be applied for depositing less than 100% if **both** of the following conditions are met:

1. Any deposit shortfall does not exceed the greater of \$100 or 2% of the amount of taxes otherwise required to be deposited, and
2. The deposit shortfall is paid or deposited by the shortfall makeup date as described below.

- **Monthly schedule depositor**—Deposit or pay the shortfall with your return by the due date of the Form 941 for the period in which the shortfall occurred. You may pay the shortfall with Form 941 even if the amount is \$500 or more.
- **Semiweekly schedule depositor**—Deposit the shortfall by the first Wednesday or Friday, whichever is earlier, falling on or after the 15th day of the month following the month in which the shortfall occurred, or, if earlier, the due date of the return. For example, if a semiweekly schedule depositor has a deposit shortfall during February 1998, the shortfall makeup date is March 18, 1998 (Wednesday). However, if the shortfall occurred on the required April 1 deposit date for a March 27, 1998, pay date, the return due date for the March 27 tax liability (April 30) would come before the May 15 (Friday) shortfall makeup date. In this case, the shortfall would have to be deposited by April 30.

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