

# Notice 931

(Rev. October 2011)



Department of the Treasury  
Internal Revenue Service

## 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 federal income tax. These schedules tell you when a deposit is due after a tax liability arises (for example, when you have a payday). Before the beginning of each calendar year, you must determine which of the two deposit schedules you must use. The deposit schedule you must use is based on the total tax liability you reported during a **lookback period**. Your deposit schedule is **not** determined by how often you pay your employees or make deposits. See *Application of Monthly and Semiweekly Schedules*, later.

These rules do not apply to federal unemployment (FUTA) tax. See the Instructions for Form 940 for information on depositing FUTA tax.

**Deposit rules for Form 941.** Your deposit schedule (monthly or semiweekly) for Form 941, Employer's QUARTERLY Federal Tax Return, is based on the total tax liability you reported on Form 941 during a four-quarter lookback period discussed below under *Lookback period for Form 941*.

**\$2,500 Rule.** Instead of making deposits during the current quarter, you can pay your total Form 941 tax liability when you timely file Form 941 if:

1. Your total Form 941 tax liability for either the current quarter or the preceding quarter is less than \$2,500, and
2. You do not incur a \$100,000 next-day deposit obligation during the current quarter.

If you are not sure your total liability for the current quarter will be less than \$2,500, (and your liability for the preceding quarter was not less than \$2,500), make deposits using the semiweekly or monthly rules so you won't be subject to failure to deposit penalties.

**Deposit rules for Forms 943, 944, 945, and CT-1.** Generally, the deposit rules for Form 941 also apply to tax liabilities for Form 943, Employer's Annual Federal Tax Return for Agricultural Employees; Form 944, Employer's ANNUAL Federal Tax Return; Form 945, Annual Return of Withheld Federal Income Tax; and Form CT-1, Employer's Annual Railroad Retirement Tax Return. However, because Forms 943, 944, 945, and CT-1 are annual returns, the rules for determining your deposit schedule apply to a calendar year rather than a calendar quarter. See *Lookback period for annual returns* below. For more information about deposit rules for annual returns, see Pub. 15 (Circular E), Employer's Tax Guide (for Forms 944 and 945); Pub. 51 (Circular A), Agricultural Employer's Tax Guide (for Form 943); and the Instructions for Form CT-1.

**Federal tax deposits must be made by electronic funds transfer.** Beginning January 1, 2011, you must use electronic funds transfer to make all federal tax deposits (such as deposits of employment tax, excise tax, and corporate income tax). Forms 8109 and 8109-B, Federal Tax Deposit Coupon, cannot be used after December 31, 2010. Generally, electronic fund transfers are made using the Electronic Federal Tax Payment System (EFTPS). If you do not want to use EFTPS, you can arrange for your tax professional, financial institution, payroll service, or other trusted third party to make deposits on your behalf. Also, you may arrange for your financial institution to initiate a same-day wire payment on your behalf. EFTPS is a free service provided by the Department of Treasury. Services provided by your tax professional, financial institution, payroll service, or other third party may have a fee. For more information on making federal tax deposits, see section 11 of Pub. 15 (Circular E). To get more information about EFTPS or to enroll in EFTPS, visit [www.eftps.gov](http://www.eftps.gov) or call 1-800-555-4477. Additional information about EFTPS is also available in Pub. 966, *The Secure Way to Pay Your Federal Taxes*.

**Depositing on time.** For EFTPS deposits to be on time, you must initiate the deposit by 8 p.m. Eastern time the day before the date the deposit is due. If you fail to initiate an EFTPS deposit on time, you may use the same-day wire payment option discussed above.

**Lookback period for Form 941.** 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 in a four-quarter lookback period. The lookback period begins July 1 and ends June 30, as shown in the following chart. 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. The lookback period for a 2012 Form 941 filer who filed Form 944 in either 2010 or 2011 is calendar year 2010.

### Form 941 Lookback Period for Calendar Year 2012

Lookback Period

2010		2011		2012
July 1 thru Sept. 30	Oct. 1 thru Dec. 31	Jan. 1 thru Mar. 31	Apr. 1 thru June 30	Calendar Year Jan. – Dec.

**Lookback period for annual returns.** For annual returns (Forms 943, 944, 945, and CT-1), the lookback period is the calendar year preceding the previous year. For example, the lookback period for 2012 is 2010.

### Monthly Deposit Schedule

You are a monthly schedule depositor for a calendar year if the total taxes during your lookback period were \$50,000 or less.

Under the monthly deposit schedule, deposit accumulated taxes on payments made during a calendar month by the 15th day of the following month.

Monthly schedule depositors do **not** 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.** Your tax liability for each quarter in the lookback period is considered to be zero. Therefore, you are a monthly schedule depositor for the 1st year you are an employer. However, see the *\$100,000 Next-Day Deposit Rule*, later.

### Semiweekly Deposit Schedule

You are a semiweekly schedule depositor for a calendar year if the total taxes during your lookback period were more than \$50,000.

#### Deposit Period (Payment Days)

Wednesday, Thursday, and/or Friday  
Saturday, Sunday, Monday, and/or Tuesday

#### Deposit By

Following Wednesday  
Following Friday

**Semiweekly deposit period spanning two return periods.** If a return period ends on a day other than Friday or Tuesday, taxes accumulated on the days during the return period just ending are subject to one deposit obligation, and taxes accumulated on the days covered by the new return period are subject to a separate deposit obligation. For example, if a return period ends on Thursday, taxes accumulated on Wednesday and Thursday are subject to one deposit obligation and taxes accumulated on Friday are subject to a separate obligation. Separate deposits are required because two different return periods are affected.

### Example of Monthly and Semiweekly Schedules

Hazel Jones reported Form 941 tax liabilities as follows:

2011 Lookback Period	2012 Lookback Period
3rd Quarter 2009 - \$12,000	3rd Quarter 2010 - \$12,000
4th Quarter 2009 - \$12,000	4th Quarter 2010 - \$12,000
1st Quarter 2010 - \$12,000	1st Quarter 2011 - \$12,000
2nd Quarter 2010 - \$12,000	2nd Quarter 2011 - \$15,000
<u>-\$48,000</u>	<u>-\$51,000</u>

Hazel is a monthly schedule depositor for 2011 because her tax liability for the four quarters in the lookback period (3rd quarter 2009 through 2nd quarter 2010) was not more than \$50,000.

However, for 2012, Hazel is a semiweekly schedule depositor because her liability exceeded \$50,000 for the four quarters in the lookback period (3rd quarter 2010 through 2nd quarter 2011).

## Deposits on Business Days Only

If a deposit is due on a day that is not a business day, the deposit is considered to have been made timely if it is made by the close of the next business day. A business day is any day other than a Saturday, Sunday, or legal holiday. For example, if a deposit is due on a Friday and Friday is a legal holiday, the deposit will be considered timely if it is made by the following Monday (if that Monday is a business day). The term "legal holiday" means any legal holiday in the District of Columbia. For a list of legal holidays, see Pub. 15 (Circular E), or visit IRS.gov and enter the words "legal holidays" in the search box.

**Special rule for 2011.** Notice 2010-87 provides that the IRS will not assert penalties for deposits due during calendar year 2011 that are untimely solely because the depositor treated a statewide legal holiday as if it were a legal holiday in the District of Columbia.

**Semiweekly schedule depositors** have at least 3 business days to make a deposit. That is, if any of the 3 weekdays after the end of a semiweekly period is a legal holiday, you will have an additional business day to deposit for each day that is a legal holiday. For example, if a semiweekly schedule depositor accumulated taxes for payments made on Friday and the following Monday is a legal holiday, the deposit normally due on Wednesday may be made on Thursday. This allows 3 business 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 to how often you must make deposits. The terms identify which set of deposit rules you must follow when an employment 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 March, but did not pay any wages during April. Under the monthly schedule, Pine Co. must deposit the combined tax liabilities for the March paydays by April 15. Pine Co. does not have a deposit requirement for April (due by May 15) because no wages were paid and, therefore, it did not have a tax liability for the month.

**Semiweekly schedule example.** Maylen Smith, who has a semiweekly deposit schedule, pays wages once each month on the last Friday of the month. Although Maylen has a semiweekly deposit schedule, she will deposit just once a month because she pays wages only once a month. The deposit, however, will be made under the semiweekly deposit schedule as follows: Maylen's tax liability arises when she pays wages on April 27, 2012 (Friday), the liability must be deposited by May 2, 2012 (Wednesday). Under the semiweekly deposit schedule, liabilities for wages paid on Wednesday through Friday must be deposited by the following Wednesday.

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

If you accumulate a tax liability of \$100,000 or more on any day during a deposit period, you must deposit the tax by the next business day, whether you are a monthly or semiweekly schedule depositor. The deposit period for monthly schedule depositors is a calendar month. For semiweekly schedule depositors, the deposit periods are Wednesday through Friday and Saturday through Tuesday.

For the \$100,000 next-day deposit rule, do not continue accumulating tax liabilities 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.

In addition, once you accumulate at least \$100,000 in a deposit period, stop accumulating at the end of that day and begin to accumulate again the next day. For example, Fir Co. is a

semiweekly schedule depositor. On Monday, Fir Co. accumulates taxes of \$110,000 and must deposit this amount on Tuesday, the next business day. On Tuesday, Fir Co. accumulates additional taxes of \$30,000. Because the \$30,000 is not added to the previous \$110,000 and is less than \$100,000, Fir Co. must deposit the \$30,000 by Friday, following the semiweekly deposit schedule.

If you are a monthly schedule depositor and accumulate a \$100,000 tax liability on any day, you become a semiweekly schedule depositor on the next day and remain so for at least the rest of the calendar year and for the following calendar year.

**Example of \$100,000 next-day deposit rule.** Fir Co. started its business on May 1, 2012. On May 8, it paid wages for the first time and accumulated a tax liability of \$40,000. On Friday, May 11, Fir Co. paid wages and accumulated a liability of \$60,000, making its accumulated tax liability total \$100,000. Fir Co. must deposit \$100,000 by May 14, the next business day. Because this was the 1st 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 May 11, it became a semiweekly schedule depositor on May 12. It will be a semiweekly schedule depositor for the remainder of 2012 and for 2013.

## Adjustments and the Lookback Rule

Determine your tax liability for the lookback period (four-quarter lookback period for Form 941 and calendar-year lookback period for Form 943, Form 944, Form 945, and Form CT-1) based on the tax liability as **originally** reported. If you later made adjustments to correct errors on those returns by filing a Form 941-X, Form 943-X, Form 944-X, Form 945-X or Form CT-1X, these adjustments do not affect the amount of the employment tax liability for the lookback rule.

**Example of adjustments and the lookback rule for Form 941.** An employer originally reported a tax liability of \$45,000 for the four quarters in the lookback period ending June 30, 2011. The employer discovered during January 2012 that the tax during one of the lookback period quarters was understated by \$10,000 and corrected this error with an adjustment on Form 941-X, Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund. This employer is a monthly schedule depositor for 2012 because the lookback period tax liabilities are based on the amounts originally reported and they did not exceed \$50,000. The \$10,000 adjustment does not affect the amount of tax liability for the lookback rule.

## 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.
2. The deposit shortfall is paid or deposited by the shortfall makeup date as described below.

## Makeup Date for Deposit Shortfall

**Monthly schedule depositor.** Deposit or pay the shortfall with your return by the due date of the return. You may pay the shortfall with your return even if the amount is \$2,500 or more.

**Semiweekly schedule depositor.** Deposit by the **earlier** of:

1. The first Wednesday or Friday that falls on or after the 15th of the month following the month in which the shortfall occurred or
2. The due date of your return (for the return period of the tax liability). For each calendar quarter, Form 941 is due by the last day of the month following the end of the quarter.

For example, if a semiweekly schedule depositor has a deposit shortfall during July 2012, the shortfall makeup date is August 15, 2012 (Wednesday). However, if the shortfall occurred on the required April 4 (Wednesday) deposit due date for the March 30 (Friday) pay date, the return due date for the March 30 pay date (April 30) would come before the May 16 (Wednesday) shortfall makeup date. In this case, the shortfall must be deposited by April 30.