

Notice 931

(Rev. October 2015)



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 isn't determined by how often you pay your employees or make deposits. See *Application of Monthly and Semiweekly Schedules*, later.

These rules don't 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 Forms 941 during a four-quarter lookback period discussed below under *Lookback period for Form 941*.

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 don't incur a \$100,000 next-day deposit obligation during the current quarter.

If you aren't sure your total liability for the current quarter will be less than \$2,500, and your liability for the preceding quarter wasn't less than \$2,500, make deposits using the semiweekly or monthly rules so you won't be subject to failure to deposit penalties. For more information about deposit rules for Form 941, see Pub. 15.

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 (for Forms 944 and 945),

Pub. 51 (for Form 943), and the Instructions for Form CT-1.

Federal tax deposits must be made by electronic funds transfer (EFT). You must use EFT to make all federal tax deposits. Generally, an EFT is made using the Electronic Federal Tax Payment System (EFTPS). If you don't want to use EFTPS, you can arrange for your tax professional, financial institution, payroll service, or other trusted third party to make electronic 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. To get more information about EFTPS or to enroll in EFTPS, visit www.eftps.gov or call 1-800-555-4477 or 1-800-733-4829 (TDD). Additional information about EFTPS is also available in Pub. 966.

Depositing on time. For EFTPS deposits to be on time, you must submit the deposit by 8 p.m. Eastern time the day before the date the deposit is due. If you fail to submit 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 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 2016 Form 941 filer who filed Form 944 in either 2014 or 2015 is calendar year 2014.

Form 941 Lookback Period for Calendar Year 2016

Lookback Period				←	2016 Calendar Year Jan.– Dec.
2014		2015			
July 1 thru Sept. 30	Oct. 1 thru Dec. 31	Jan. 1 thru Mar. 31	Apr. 1 thru June 30		

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 2016 is 2014.

Monthly Deposit Schedule

You are a monthly schedule depositor for a calendar year if the total tax reported for your lookback period was \$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.

New employers. Your tax liability for any quarter in the lookback period before the date you started or acquired your business 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)	Deposit By
Wednesday, Thursday, and/or Friday	Following Wednesday
Saturday, Sunday, Monday, and/or Tuesday	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:

2015 Lookback Period	2016 Lookback Period
3rd Quarter 2013 - \$12,000	3rd Quarter 2014 - \$12,000
4th Quarter 2013 - \$12,000	4th Quarter 2014 - \$12,000
1st Quarter 2014 - \$12,000	1st Quarter 2015 - \$12,000
2nd Quarter 2014 - <u>\$12,000</u>	2nd Quarter 2015 - <u>\$15,000</u>
\$48,000	\$51,000

Hazel is a monthly schedule depositor for 2015 because her tax liability for the four quarters in the lookback period (3rd quarter 2013 through 2nd quarter 2014) wasn't more than \$50,000. However, for 2016,

Hazel is a semiweekly schedule depositor because her liability exceeded \$50,000 for the four quarters in the lookback period (3rd quarter 2014 through 2nd quarter 2015).

Deposits on Business Days Only

If a deposit is due on a day that isn't 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 or Pub. 51.

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" don't 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 June, but didn't pay any wages during July. Under the monthly schedule, Pine Co. must deposit the combined tax liabilities for the June paydays by July 15. Pine Co. doesn't have a deposit requirement for July (due by August 15) because no wages were paid and, therefore, it didn't 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 29, 2016 (Friday); the liability must be deposited by May 4, 2016 (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 close of 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, don't 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 doesn't 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 anew 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 isn't 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, 2016. On Wednesday, May 4, Fir Co. paid wages for the first time and accumulated a tax liability of \$40,000. On Friday, May 6, 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 Monday, May 9, 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 6, it became a semiweekly schedule depositor on May 7. It will be a semiweekly schedule depositor for at least the remainder of 2016 and for 2017.

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 don't 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, 2015. The employer discovered during January 2016 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. This employer is a monthly schedule depositor for 2016 because the lookback period tax liabilities are based on the amounts originally reported and they didn't exceed \$50,000. The \$10,000 adjustment doesn't 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 won't be applied for depositing less than 100% if **both** of the following conditions are met.

1. Any deposit shortfall doesn't 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). Form 941, Form 943, Form 944, and Form 945 are due by the last day of the month following the period for which the returns were made. Form CT-1 is due by the last day of the second month following the calendar year.

For example, if a semiweekly schedule depositor has a deposit shortfall during June 2016, the shortfall makeup date is July 15, 2016 (Friday). However, if the shortfall occurred on the required April 1 (Friday) deposit due date for the March 29 (Tuesday) pay date, the return due date for the March 29 pay date (May 2) would come before the May 18 (Wednesday) shortfall makeup date. In this case, the shortfall must be deposited by May 2.