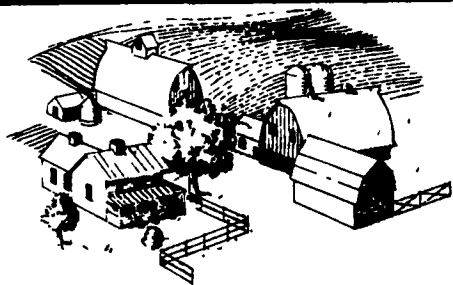


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**MANAGEMENT**

BY JOHN J. DEFASSIO  
Multi-county Farm  
Management Agent  
Penn State Cooperative  
Extension

Penn State Farm Management Agents are taking an in-depth look at Labor Management, dividing the subject into eleven articles. This is the second installment of the series.

There are only two types of tax laws that apply to agricultural labor: Employment taxes and Unemployment taxes. That sounds simple enough until you realize that federal, state and local taxing agencies all enforce laws under these two categories.

**Federal Employment Taxes (FICA)**

Social Security tax is authorized through the Federal Insurance Contribution Act (FICA). The tax applies to farmers employing more than \$2500 of agricultural labor from all employees during one calendar year, OR who pay \$150 or more in cash wages to an individual employee during a calendar year.

**What is Taxable**

The tax rate is applied to the wage base, the first \$48,000 of cash wages paid in 1989. The wage base will be adjusted automatically as the average wage level changes. All base wages paid to employees are subject to the tax, including wages paid to the employer's spouse. Children of the employer who are under age 18 are exempt from Social Security or FICA tax. Employer's

spouse and under age 21 children's wages became subject to this tax in 1988 and later years.

**How FICA Tax is Collected**

The tax rate for 1989 is 7.51 percent and for 1990 the rate will be 7.65 percent. This rate applies to the gross cash wages paid. The tax is imposed upon both the employer and the employee. The employer is responsible for collecting the employee's share of the tax and remitting a total tax of 15.02 percent to the IRS. The tax is required to be deposited at any authorized financial institution within 15 days when the total liability at the end of any month reaches \$500. If the monthly liability equals \$3000 or more the total tax must be deposited within three banking days of the end of any eight-monthly period for which the accumulated liability exceeds \$3000. The eight-monthly periods end on the 3rd, 7th, 11th, 15th, 19th, 22nd, 25th and the last day of each month.

**What Form to File**

Agricultural employers are required to file form 943 annually to report the total liability for federal employment taxes. The form must be filed with the IRS not later than January 31 of the following year. Total taxable wages are reported, tax liability is calculated and total tax deposits are accounted for. Any undeposited liability is due with the return. Separate penalties are imposed for failure to deposit taxes on time and failure to file a tax form on

time. In addition to FICA tax, form 943 is also used to report any federal income tax withheld. Farmers are not required to withhold federal income tax from an agricultural employee. However, both the employee and employer may agree to withhold income taxes from wages paid.

**More Forms**

Farmers must also complete a form W-2 for each employee. The W-2 reports the total compensation and the taxable FICA wages paid. The employer must also report any and all taxes withheld from wages on form W-2. Form W-2 must be distributed to the employees by January 31 of the following year. Form W-3 is required for the employer to transmit all W-2 forms to the Social Security Administration by February 28 of the following year.

**State Employment Taxes**

Pennsylvania imposes an income tax on wages earned in the state. The tax must be collected by the employer if the employee is subject to federal withholding. The tax withheld, if less than \$300, is deposited each quarter

with the State of PA by using form PA501. If the tax withheld is \$300 or more it is deposited monthly and a quarterly reconciliation form is required. In addition an annual form PAW-3R must be filed along with a copy of each employees form W-2. The PAW3-R acts as a reconciliation form and a transmittal form for the individual W-2 reports.

**Local Employment Taxes**

Some local governments have established an Occupational Privilege Tax. This is usually a flat rate of \$10 for each employee who earns \$1000 or more during the year. Many local governments also impose an earned income tax on wages earned within their jurisdiction. Employers are usually required to withhold these taxes and remit the tax to the local tax collector on a quarterly basis. Each local government establishes its own rules for withholding and remitting these taxes. Please check with your local Earned Income Tax Collector for more information.

**Federal Unemployment Taxes (FUTA)**

The Federal Unemployment Tax Act (FUTA) requires farmers to pay FUTA only when cash wages of \$20,000 or more are paid in any calendar quarter OR if 10 or more workers are employed for some portion of a day during each of 20 different calendar weeks during the current or preceding year. Wages paid to the employer's spouse, parents, or the employer's OWN children under age 21 are NOT subject to FUTA tax. FUTA is a tax on the employer and CANNOT be deducted from the employee's wage.

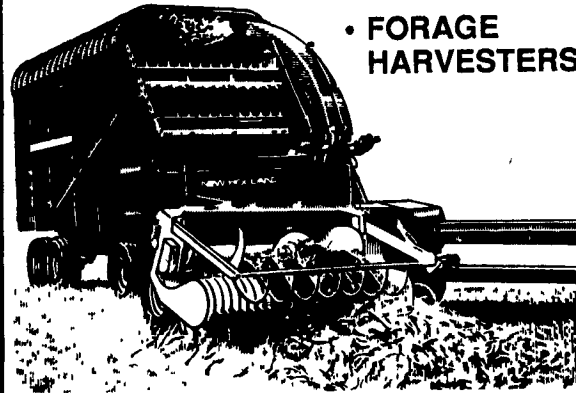
**How FUTA Tax is Collected**

A tax rate of 6.2 percent is charged on the first \$7000 of cash wages paid. If an employer has filed and paid all state unemployment taxes in a timely manner a credit of 5.4 percent of the taxable wages is granted. This credit yields a net rate of .8 percent. A deposit must be made of the total tax liability at any authorized financial institution by the end of

(Turn to Page A29)

**REAP HIGH YIELDS**

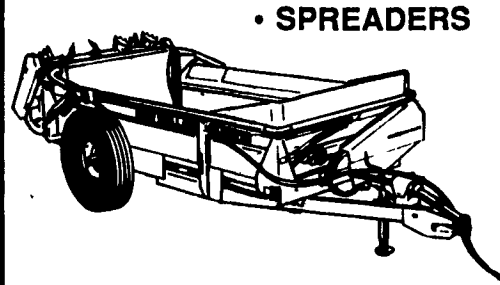
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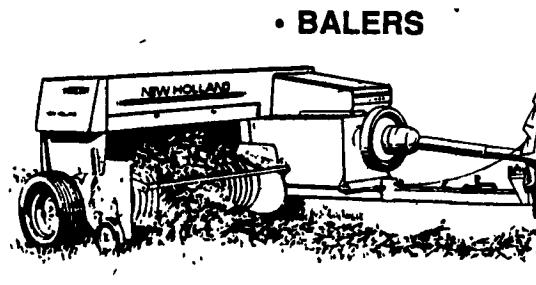
• FORAGE HARVESTERS



• GRINDER MIXERS

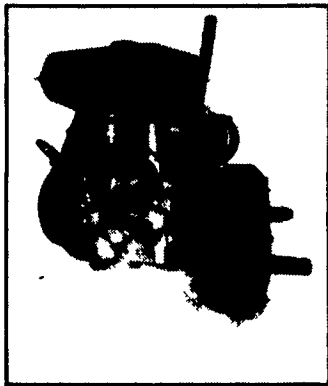


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