



The Staffing Firm's Guide to Taxes



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Taxes Can Be A Headache in the Staffing Industry.

From classifying employees properly to taking advantage of tax credits, there are nuances to doing taxes in this industry. To help you in the process, we have put together a guide of information to keep in mind when doing payroll and other business-affiliated taxes, such as an income tax, for your staffing business. Included are industry-specific tax tips, FAQs, regulations and policies to keep in mind, and links to important forms.

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Tax Related Tips for the Staffing Industry

Most states consider staffing or temporary agencies to be the full employers of temporary employees. This designation requires that your business has a state tax identification number as well as an EIN from the federal tax administration. All staffing companies that hire employees must withhold and remit payroll taxes.

1. UNDERSTAND HOW TO CLASSIFY YOUR EMPLOYEES

Are you working with employees, independent contractors, or both? Although it may be tempting to label your employees as independent contractors because of tax savings, you need to consider carefully if they should be classified as W-2s instead. Be careful - organizations face steep interest payments, fines or even criminal punishments when they improperly classify a worker. Be aware of state laws too. California, for instance, recently passed a law with more stringent employee classification rules. [Read the IRS rules classifying Independent Contractors vs Employees](#)

2. TAKE ADVANTAGE OF TAX CREDITS

If applicable, take advantage of the Work Opportunity Tax

Credit (WOTC), a federal tax credit rewarding companies for employing individuals who have previously faced significant barriers to employment such as veterans, long term unemployed, and food stamp recipients. Employers can earn up to \$9,600 in federal tax credits for each qualified employee, and there is a good chance you may already be hiring individuals from these target groups but not claiming the tax credits. To apply for these tax credits, employers are required to fill out two forms, [IRS Form 8850](#) and [ETA Form 9061](#), during a new hire onboarding. They must then submit those forms to the [Department of Labor](#) within 28 days of the new hire to be eligible for the tax credits. Many companies will outsource the WOTC to a tax credit processing firm for their expertise. [Read more about federal tax credits for staffing firms](#)

3. AVOID COMMON PAYROLL TAX PITFALLS

Many staffing firms face **common pitfalls** when it comes to payroll taxes. Keep these in mind to avoid IRS scrutiny and bad consequences for your business.

- Not documenting and responding to notices – if you see a notice from the IRS, don't pretend it's junk mail. Small businesses historically are the largest source of uncollected taxes, so tax notices could come at any time and not responding could put your business at risk.
- Misclassifying employees – see #1 above
- Borrowing funds and making late deposits – when a cash crisis occurs, pulling money from employee paychecks may seem like a good short-term solution, but be wary. You have to ensure you have the resources available to pay your payroll taxes on time.
- Not understanding the basics - Did you know that you are supposed to file payroll taxes in the state where the work was performed, not the state where the worker lives? Or that some states require employers to pay both payroll taxes and income tax returns? If you aren't familiar with the payroll tax basics, it is important that you work with a company that does in order to avoid harsh penalties.

4. FILE ON TIME

You can avoid tax penalties by paying your federal and state taxes on time. Your federal tax deposit must be made electronically through one of these methods:

- The Treasury Department's free Electronic Federal Tax Payment System (EFTPS)
- A trusted third party, such as a payroll service or tax professional
- A financial institution that can initiate an ACH Credit payment



5. KEEP RECORDS LIKE CRAZY

Should the IRS ever question your payroll or business, these records must be kept for examination. Make sure that you have:

- The names, addresses and Social Security numbers for every employee
- The period of employment and compensation for each employee
- The total amounts of pay given to each employee
- The amounts of each payment kept as taxable wages
- Complete copies of each employee's W-4 form
- All dates and records for each tax deposit made by your company
- Thorough copies of all tax returns filed
- Any and all W-2 forms that were undeliverable to past employees

6. THINK ABOUT NEXT YEAR

Once your taxes are done this year, it is time to start thinking ahead to next year. Some questions to consider for your business:

Changing entity. If a sole proprietorship has grown, maybe it is time to incorporate or form a limited liability company (LLC). An existing C corporation may want to become an S corporation, or vice versa.

Accounting methods. Tax law dictates some accounting methods that must be used, but there is also room for choice in some areas. Making changes can have long-term consequences and may also trigger income.

Declaring dividends. Profitable corporations may want to distribute earnings to shareholders. While dividends are not deductible, shareholders who receive them pay tax

on them at favorable capital gain rates (zero, 15%, or 20%, depending on the individual's tax bracket).

Issues for going multi-state and international. A business may begin to sell across borders into other states and/or other countries. This raises a host of issues, including taxation, international intellectual property protection, and personnel.

Other legal matters to discuss with your attorney are acquiring the assets or stock of another business, assigning or terminating a lease, or seeking financing from outside parties. Then review these matters with your accountant to make sure you understand the tax ramifications of the actions taken.



Staffing Tax FAQ

Q: I'M GOING IN TO A NEW STATE – WHAT ARE THE SUTA RATES & SUTA WAGE BASES?

A: State unemployment insurance taxes are based on a percentage of the taxable wages an employer pays, and it's up to the state to determine the taxable wage base beyond the \$7,000 required federally. For a list of rates and other significant provisions by state, look at [this document from the Department of Labor](#). Need to speak to someone in person or mail something in? Here is a list of [State Unemployment Tax Agencies](#).

Further reading on unemployment taxes: <https://workforcesecurity.doleta.gov/unemploy/uitaxtopic.asp>

Q: WHERE CAN I FIND THE FEDERAL AND STATE WAGE AND HOUR DIVISION (WHD) FORMS?

A: You can find the federal forms [here](#). For the state forms, here is a [link to the State Labor Offices](#).

Q: DOES MY STATE HAVE A RECIPROCAL AGREEMENT?

A: See [this chart](#) of state tax reciprocal agreements.

Q: WHAT IS THE SALES TAX RATE IN MY STATE?

A: Here is a list of [state tax rates](#) from the Sales Tax Institute. Many states have local sales tax rates online and the Department of Revenue of your state is a good place to start.

Q: HOW DO I TAX FRINGE BENEFITS?

A: Here is a list of [fringe benefits and exceptions](#) from the IRS.

Q: HOW DO I DETERMINE CONTRACTOR VS EMPLOYEE?

A: Here is a guide from the IRS on how to [classify employees](#).

Q: HOW CAN I TRY A DIFFERENT TAX SCENARIO?

A: There are many free online tools such as [Paycheckcity](#) to investigate different scenarios.



Regulations and Policies

HERE ARE SIX TAX REGULATIONS TO BE AWARE OF WHEN FILING 2019 TAXES:

1. **Extended Tax Deadline.** Due to COVID-19 and related issues, the Treasury Department and Internal Revenue Service announced that the federal income tax filing due date is automatically extended from April 15, 2020, to July 15, 2020.

2. **Tax Reform.** 2019 is the second year under the provisions of the Tax Cuts and Jobs Act. Under the TC&JA, most staffing firms qualify as a “Pass-Through Entity”, meaning the deduction can be up to 20% of a pass-through entity owner’s Qualified Business Income, subject to certain restrictions.

3. **Affordable Care Act.** While the individual mandate was eliminated starting in 2019, all other provisions of the ACA including the employer mandate are still in effect for 2019 taxes. Applicable large employer members are subject to the reporting requirements under IRC section 6056, which requires information about the health care coverage offered to full-time employees.

4. **Accelerated Depreciation.** Starting in tax year 2018 and continuing for 2019, the Section 179 deduction was increased to \$1,000,000 and the bonus depreciation is

100% retroactive to 9/27/2017 and now includes used equipment. It is good through 2022.

5. **Retirement Plan Tax Credit.** Small businesses of 100 or fewer employees who were paid at least \$5,000 in the year before they set up the plan can claim a federal income tax credit for offering certain retirement plans. The credit for small employer pension plan costs is 50 percent of the costs of starting a SEP, SIMPLE IRA, or another qualified retirement plan, for a maximum credit of \$500 per year. These costs relate to setting up and administering the plan, as well as educating employees about the plan. The credit can be claimed for three years. There’s even an option to claim the credit starting in the year prior to commencing the plan.

6. **Net operating loss change.** Net operating losses (NOL) can no longer be carried back for two years, but instead can be applied for an indefinite amount of time going forward. Net operating losses occur when a business’s tax deductions are greater than its taxable income. It functions as a form of tax relief for businesses, where business owners can apply a NOL to future tax payments.

FEDERAL TAX DEPOSIT RULES

Effective January 1, 2011, federal taxes must be paid via Electronic Federal Tax Payment System (EFTPS®) unless you owe \$2,500 or less with your quarterly Form 941. Details for enrolling in EFTPS are available at eftps.gov.

FICA Limits	2019	2020
Social Security (OASDI) Wage Base	\$132,900	\$137,700
Medicare Wage Base	No Limit	No Limit
OASDI Percentage	6.2%	6.2%
HI Percentage	1.45% (2.35% for individuals earning over \$200,000)	1.45% (2.35% for individuals earning over \$200,000)
Maximum OASDI Withholding	\$8,239.80	\$8,537.40
Maximum HI Withholding	No Limit	No Limit
Maximum FICA Withholding	No Limit	No Limit

FEDERAL TAX DEPOSIT FREQUENCY

It is up to you, the employer, to determine the correct frequency that you should deposit federal taxes.

1. Monthly depositor: If the aggregate amount of employment taxes reported for the period July 1, 2018 to June 30, 2019 is \$50,000 or less unless a daily deposit is required (see #3)

Note for Start Ups: New businesses deposit using the monthly deposit rule, unless a daily deposit is required under Rule 3.

2. Semi-weekly depositor: If the aggregate amount of employment taxes reported for the period July 1, 2018 to June 30, 2019 exceeds \$50,000

3. Daily depositor: Employers with an accumulated unpaid liability of \$100,000 or more during the deposit period must deposit within one banking day of the payroll check date. When a monthly depositor is subject to this rule, that employer immediately becomes a semi-weekly depositor for the rest of 2020 and for 2021.

TAX REFORM DETAILS

In 2017, the Trump administration passed the Tax Cuts and Jobs Act, the most significant tax overhaul in over 30 years. Here are the major points for staffing firms:

- Permanent reduction in the corporate tax rate to 21% from the existing 35%.
- Allowing pass-through businesses to deduct 20% of their income tax free. Complex rules and limitations apply.
- Reduce to \$0 the penalty of the individual mandate of the Affordable Care Act. This change doesn't take effect until 2019, meaning that people will still pay the penalty for this year.
- Seven individual tax brackets: 10%, 12%, 22%, 24%, 32%, 35%, and a top rate of 37%.
- Almost doubling the standard deduction (from \$6,500 for individuals and \$13,000 for families to \$12,000 and \$24,000, respectively); expires at the end of 2025.

Important Tax Forms and Dates

- [Business Tax Forms](#)
- [State Tax Withholding Forms](#)

EMPLOYMENT TAXES:

- [Form I-9, Employment Eligibility Verification \(PDF\)](#)
- [Form SS-4, Application for Employer Identification Number](#)
- [Form SS-8, Determination of Worker Status](#)
- [Form W-2, Wage and Tax Statement](#)
- [Form W-2C, Corrected Wage and Tax Statement](#)
- [Form W-3, Transmittal of Wage and Tax Statements](#)
- [Form W-3C, Transmittal of Corrected Wage and Tax Statements](#)
- [Form W-4, Employee's Withholding Allowance Certificate](#)
- [Form W-4P, Withholding Certificate for Pension or Annuity Payments](#)
- [Form 940, Employer's Annual Federal Unemployment Tax Return](#)
- [Form 940, Schedule A](#)
- [Form 940 \(Schedule R\) Allocation Schedule for Aggregate Form 940 Filers \(PDF\)](#)
- [Form 941, Employer's Quarterly Federal Tax Return](#)
- [Form 941, Schedule B, Employer's Record of Federal Tax Liability](#)
- [Form 941 \(Schedule D\) Report of Discrepancies Caused by Acquisitions, Statutory Mergers, or Consolidations \(PDF\)](#)
- [Form 941 \(Schedule R\) Allocation Schedule for Aggregate Form 941 Filers](#)
- [Form 941-X, Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund](#)
- [Form 943, Employer's Annual Tax Return for Agricultural Employees](#)
- [Form 943-X Adjusted Employer's Annual Federal Tax Return for Agricultural Employees or Claim for Refund](#)
- [Form 944, Employer's Annual Federal Tax Return](#)
- [Form 944-X Adjusted Employer's ANNUAL Federal Tax Return or Claim for Refund](#)
- [Form 945, Annual Return of Withheld Federal Income Tax](#)
- [Form 945-X Adjusted Annual Return of Withheld Federal Income Tax or Claim for Refund](#)
- [Form 1040ES, Estimated Tax for Individuals](#)
- [Form 1040, Schedule H, Household Employment Taxes](#)
- [Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons](#)
- [Form 1099-MISC, Miscellaneous Income](#)
- [Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRA, Insurance Contracts](#)
- [Form 1120, U.S. Corporation Income Tax Return](#)
- [Form 4137, Social Security and Medicare Tax on Unreported Tip Income](#)
- [Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips](#)
- [Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity and Welfare-to-Work Credits](#)
- [Form 8919 Uncollected Social Security and Medicare Tax on Wages](#)
- [Form 8959 Additional Medicare Tax](#)

Form	Period	Due Date
940, Deposit of Unemployment Taxes	For companies with an accumulated unpaid liability over \$500 through December 2019	January 31
940, Annual Federal Unemployment Tax Return	For tax year 2019 with undeposited taxes of \$500 or less	January 31
941, Quarterly Federal Tax Return	For fourth quarter 2019 (10/1 - 12/31)	January 31
944, Annual Federal Tax Return	For tax year 2019 with undeposited taxes of \$2,500 or less	January 31
1096, Annual Summary and Transmittal of U.S. Information Returns with Forms 1099	For tax year 2019 Note: The electronic filing due date is also January 31	January 31
W-3, Transmittal of Income and Tax Statements with Forms W-2 (Copy A)	For tax year 2019 Note: The electronic filing due date is also January 31	January 31
941, Quarterly Federal Tax Return	For fourth quarter 2019 (10/1 - 12/31) if all taxes were deposited when due	January 31
944, Annual Federal Tax Return	For tax year 2019 if all taxes were deposited when due	February 10
940, Annual Federal Unemployment Tax Return	For tax year 2019 if all taxes were deposited when due	February 10
8027, Employer's Annual Information Return of Tip Income and Allocated Tips, and if required, Form 8027-T Transmittal	For tax year 2019 Note: The electronic filing due date is March 31	March 2
940, Deposit of Unemployment Taxes	For companies with an accumulated unpaid liability over \$500 through March 2020	April 30
941, Quarterly Federal Tax Return	For first quarter 2020 (1/1 - 3/31)	April 30
941, Quarterly Federal Tax Return	For second quarter 2020 (4/1-6/30) if all taxes were deposited when due	May 11
940, Deposit of Unemployment Taxes	For companies with an accumulated unpaid liability over \$500 through June 2020	July 31
941, Quarterly Federal Tax Return	For second quarter 2020 (4/1 - 6/30)	July 31
941, Quarterly Federal Tax Return	For second quarter 2020 (4/1 - 6/30) if all taxes were deposited when due	August 10
940, Deposit of Unemployment Taxes	For companies with an accumulated unpaid liability over \$500 through September 2020	November 2
941, Quarterly Federal Tax Return	For third quarter 2020 (7/1 - 9/30)	November 2
941, Quarterly Federal Tax Return	For third quarter 2020 (7/1 - 9/30) if all taxes were deposited when due	November 10
940, Deposit of Unemployment Taxes	For companies with an accumulated unpaid liability over \$500 through December 2020	February 1, 2021
940, Annual Federal Unemployment Tax Return	For tax year 2020 with undeposited taxes of \$500 or less	February 1, 2021
941, Quarterly Federal Tax Return	For fourth quarter 2020 (10/1 - 12/31)	February 1, 2021
944, Annual Federal Tax Return	For tax year 2020 (1/1 - 12/31)	February 1, 2021
941, Quarterly Federal Tax Return	For fourth quarter 2020 (10/1 - 12/31) if all taxes were deposited when due	February 10, 2021
940, Annual Federal Unemployment Tax Return	For tax year 2020 if all taxes were deposited when due	February 10, 2021