

RIGHT RISK™

RIGHT RISK NEWS

Social Security and Medicare Taxes in 2020

DATES TO REMEMBER

RI-PRF Coverage
November 15
for 2021 crop year coverage

Acres Reporting
- November 15

For more information see:
<https://www.rma.usda.gov>
<https://www.fsa.usda.gov>

Human workers are necessary inputs to many agricultural businesses. Generally, a worker who performs services is an employee if the employer has the right to control what will be done and how it will be done. Such workers are employees under common law. There are other types of workers that may be considered “employees by statute” for tax purposes under certain conditions. For example, individuals may work for or be employed by family members.



Child working for a Parent. Payments for the services of a child under age 18 who works for his or her parent in a trade or business are not subject to social security and Medicare taxes if the trade or business is a sole proprietorship or a partnership in which each partner is a parent of the child. Wages paid a child or spouse are subject to income tax withholding as well as social security, Medicare, and Federal Unemployment Tax Act (FUTA) taxes if he or she works for a corporation; a partnership, if a partner is not the child’s parent or spouse; or an estate, even the estate of a deceased parent.

Individual working for a Spouse. The wages for the services of an individual who works for his or her spouse in a trade or business are subject to income tax withholding and social security and Medicare taxes, but not to FUTA taxes. However, the payments for services of one spouse em-

ployed by another in other than a trade or business, such as domestic service in a private home, are not subject to social security, Medicare, and FUTA taxes.

Parent working for a Child. When the employer is a son or daughter employing his or her parent, payments for the services of a parent in the son’s or daughter’s trade or business are subject to income tax withholding and social security and Medicare taxes. Payments for the services of a parent not in the son’s or daughter’s trade or business are generally not subject to social security and Medicare taxes. Social security and Medicare taxes do not apply to payments made to a parent for domestic services under specific conditions. Wages paid a parent employed by his or her child are not subject to FUTA taxes.



How Much Risk is Right for You?

W-4 Withholding for 2020

Most employers must withhold, deposit, report, and pay income tax, social security, and Medicare taxes. The employer should have a Form W-4 on file for each employee to guide how much federal income tax to withhold from employees' wages. The Internal Revenue Service (IRS) has redesigned Form W-4 for 2020. The value of a withholding allowance was tied to the amount of the personal exemption in the past. Taxpayers can no longer claim personal exemptions or dependency exemptions due to changes in the law. Therefore, the 2020 Form W-4 no longer asks an employee to report the number of withholding allowances that they are claiming.

The revised Form W-4 is divided into five steps. Step 1 and Step 5 apply to all employees. Under Step 1 employees enter their personal information like name and filing status. In Step 5 employees sign the form. Employees who complete only Step 1 and Step 5 will have their withholding amount calculated based on their filing status standard deduction and tax rates, with no other adjustments. An employee may increase or decrease their withholding by completing Steps 2 – 4. Employees who have submitted Form W-4 in any year before 2020 are not required to submit a new form merely because of the redesign. Employers will continue to figure withholding based on the information from the employee's most recent Form W-4.

Payroll Tax Rates for 2020

The social security tax rate is 6.2 percent for both the employee and employer, unchanged from 2019. The social security wage base limit is \$137,700, which means that social security taxes are paid on compensation received up to this amount.

The Medicare tax rate is 1.45 percent for both the employee and employer, unchanged from 2019. There is no wage base limit for Medicare tax. However, the employer must withhold an additional 0.9 percent "Additional Medicare Tax" from wages paid to an employee in excess of \$200,000 within a calendar year. Additional Medicare Tax is only imposed on the employee.

Employers must deposit federal income taxes withheld and both the employer and employee social security and Medicare taxes via electronic funds transfer (EFT) in a timely manner. Employers must deposit payroll taxes either monthly, semi-weekly, or next day, depending on the tax liability. Employers reporting \$50,000 or less in payroll taxes will generally deposit social security, Medicare, and withheld federal income taxes by the 15th day of the following month. Taxes must be deposited the next day if an employer accumulates \$100,000 or more in taxes due on any day during a monthly or semi-weekly deposit period.

Social Security and Medicare Taxes – An Example

Total Compensation	\$65,000	\$135,000	\$138,000	\$250,000
• Annual				
• Monthly	5,417	11,250	11,500	20,833
Social Security Tax - Monthly				
• Employer @ 6.2%	336	698	713	1,292
• Employee @ 6.2%	336	698	713	1,292
Medicare Tax - Monthly				
• Employer @ 1.45%	79	163	167	302
• Employee @ 1.45%	79	163	167	302
• Additional Tax @ 0.9%	0	0	0	188
Total Social Security & Medicare Taxes - Monthly				
• Employer	414	861	880	1,594
• Employee	414	861	880	1,781
• Total	828	1,722	1,760	3,375
Total Social Security & Medicare Taxes - Annual				
• Employer	4,973	10,328	10,557	19,125
• Employee	4,973	10,328	10,557	21,375
• Total	9,946	20,656	21,114	40,500



Payroll Tax under COVID-19

The President of the United States issued a Presidential Memorandum directing the Secretary of the Treasury to use his authority to defer the withholding, deposit, and payment of certain payroll tax obligations. Accordingly, the Secretary determined that employers required to withhold and pay the employee share of social security tax are affected by the COVID-19 emergency for purposes of the relief. The due date for withholdings and payments on Applicable Wages was postponed until the period beginning January 1, 2021 and ending April 30, 2021 for Affected Taxpayers.

Applicable Wages means wages or compensation paid to an employee on a pay date between September 1, 2020 and December 31, 2020 for purposes of this notice. However, this dispensation is allowed only if the amount of such

wages or compensation paid for a bi-weekly pay period is less than the threshold amount of \$4,000. The threshold is determined on a pay period-by-pay period basis. It should be noted that the deposit obligation for employee social security tax does not arise until the tax is withheld.

Employers have a fiduciary and legal obligation to withhold, pay, deposit, and report social security, Medicare, and income taxes for all employees. The definitions of an employee, taxable compensation, and method for computing the tax amount is quite complicated. Employers should refer to the IRS Publication 15 (Circular E, Employer's Tax Guide) and similar IRS resources available at www.irs.gov to learn more about payroll taxes. Employers may also want to consider seeking skilled, professional counsel about their specific situation where they are in doubt.

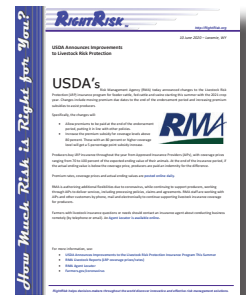


~ OTHER RIGHTRISK NEWS ~

NEWS RELEASE - OCT. 7 | RIGHTRISK

New from USDA's Economic Research Service: Commodity Costs and Returns

USDA has estimated annual production costs and returns and published accounts for major field crop and livestock enterprises since 1975. Cost and return estimates are reported for the United States and major production regions for corn, soybeans, wheat, cotton, grain sorghum, rice, peanuts, oats, barley, milk, hogs, and cow-calf. These cost and return accounts are "historical" accounts based on the actual costs incurred by producers . . .



NEWS RELEASE - OCT. 19 | RIGHTRISK

Tax Implications of Disaster Losses and Weather-Related Sales of Livestock

Fires, drought, and other weather related disasters can greatly affect farms and ranches. It is important that farmers and ranchers have an understanding of how disasters affect their tax liabilities. Producers may be able to reduce their tax liabilities by using various provisions within the Internal Revenue Code. They should have a reasonable understanding of the tax code and consult with their professional tax advisors . . .

NEWS RELEASE - OCT. 26 | RIGHTRISK

Federal Reserve Beige Book Summary on the Ag Sector

The Beige Book is a Federal Reserve System publication covering current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from District sources. Because this information is collected from a wide range of business and community contacts through a variety of formal and informal methods, the Beige Book complements other forms of regional information gathering . . .



For more see: RightRisk.org/News

HIGHLIGHTED PUBLICATIONS: *RISK CONCEPTS*

Our recently-completed *Risk Concepts* series consists of 7 bulletins covering various forms of partnerships, limited liability companies, corporations, as well as sole proprietorships. Each of the 6 most common forms of business ownership are compared across 6 characteristics of greatest importance to most farm and ranch families.

Selection between these alternatives has broad implications for how management decisions are made, the liability individuals may have when things go wrong, tax implications and level of taxation for owners, how to accommodate new owners or family members, implications for sustaining operations into the future, transfer of ownership, and ease of dissolution. The *Risk Concepts* summary chart can help.

To access the publications see: RightRisk.org/RiskConcepts.



October 1 | Social Media Post
¿Cuál es la Ley de Normas Justas de Trabajo en agricultura y cómo se aplica a mí?



October 20 | Social Media Post
Estimating Your Cost of Production



October 6 | Social Media Post
RightRisk Analytics via recorded presentations



October 22 | Social Media Post
Western Risk Management Library



October 8 | Social Media Post
Problem Work Situations via Ag Help Wanted



October 27 | Social Media Post
Evaluating Pasture, Rangeland, Forage - Rainfall Index Coverage



October 13 | Social Media Post
Estimating Custom Rates and Machinery Costs



October 29 | Social Media Post
¿Qué es un Formulario I-9 y quién lo necesita?



October 15 | Social Media Post
¿Cuáles son los requisitos para conseguir visa de Estados Unidos para trabajadores agrícolas?

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How much risk is right for you and your operation?

