

FactSheet} Federal Business Taxes

The Internal Revenue Service (IRS) has a number of useful online resources to help business owners and employers understand federal tax obligations. Federal employer tax obligations include Social Security/Medicare taxes, unemployment taxes and federal income tax withholding from employee pay.

Corporation Income Tax

Net income after all allowable deductions for business expenses, depreciation, interest costs, taxes paid, contributions, etc.

If Taxable Income Is:		Tax Is:	Of the Amount Over:
Over-	But Not Over-		
\$0	\$50,000	15%	\$0
50,000	75,000	\$7,500 + 25%	50,000
75,000	100,000	13,750 + 34%	75,000
100,000	335,000	22,250 + 39%	100,000
335,000	10,000,000	113,900 + 34%	335,000
10,000,000	15,000,000	3,400,000 + 35%	10,000,000
15,000,000	18,333,333	5,150,000 + 38%	15,000,000
18,333,333	-----	35%	0

Federal Income Tax, Social Security and Medicare Taxes

Employers have tax obligations to the IRS. You generally must withhold federal income tax from your employees' wages. You withhold part of Social Security and Medicare taxes from your employees' wages and you pay a matching amount yourself. The total rate paid by an employer is 7.65 percent and the total rate paid by an employee is 5.65 percent. For the self-employed, the total rate is 13.30 percent.

- Old Age, Survivors and Disability (OASDI): The 2011 employer tax rate is 6.2 percent, while the employee tax rate is 4.2 percent, on the first \$106,800 of wages.
- Medicare: Employer and employee each pay 1.45 percent on all wages.

Fact: It's important for business owners to understand federal tax obligations.

Federal Unemployment Tax Act (FUTA)

As of June 30, 2011, the FUTA tax rate is 6 percent. A maximum credit of 5.4 percent can be taken against the FUTA taxable wages that were paid into state unemployment funds. The net federal unemployment insurance tax cost to employers is the difference between the rate paid to the state and 6.2 percent (or 6 percent after 6/30/11). The rate for new employers in Kentucky is 2.7 percent for the first \$8,000 earned by each worker in a calendar year.

Other Federal Taxes

Federal excise taxes may be applicable. Examples are motor fuel taxes, taxes on airline tickets or cargo, import duties, and the 3 percent excise tax on local telephone bills. For more detailed information on excize tax see:

www.irs.gov/pub/irs-pdf/p510.pdf.

For further information on all federal taxes, refer to the IRS publication *Employer's Tax Guide*

www.irs.gov/pub/irs-pdf/p15.pdf. You may also want to consult with an accountant or tax professional regarding your business taxes.

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