

## ALE.13

# Payroll Taxes Payable

When you pay someone on payroll you must deduct federal Medicare and Social Security taxes from the employee's paycheck. This is their money. You are required to take it from your employees and send it to the IRS. Since it is not your money, it should not be reported as an expense. It is a liability. It is money you must pay to the IRS.

In addition, you must also pay the IRS the employer's portion of Medicare and Social Security, and you may owe other federal and state unemployment taxes. Those are the amounts that are recorded on your income statement as payroll tax expenses.

Depending on how you pay wages and associated payroll taxes you may or may not need to use the payroll taxes payable account. The best way to report payroll taxes payable and payroll tax expense in your bookkeeping system depends on the payroll service you use. When you hire a payroll service be sure to make a plan for recording your payroll expenses correctly.